OVERSIGHT OF DVA LOAN GUARANTY PROGRAM, H.R. 939 AND H.R. 1384

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

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OVERSIGHT OF DVA LOAN GUARANTY PROGRAM, AND H.R. 939, TO EXPAND THE LOAN GUARANTY PROGRAM TO CERTAIN MEMBERS OF THE NATIONAL GUARD AND RESERVES, AND H.R. 1384, TO PROVIDE FOR A DEMONSTRATION PROGRAM WITH REGARD TO ARM'S

THURSDAY, MAY 2, 1991

House of Representatives,
Subcommittee on Housing and Memorial
Affairs,
Committee on Veterans' Affairs,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 am., in room 334, Cannon House Office Building, Hon. Harley O. Staggers, Jr. (chairman of the subcommittee) presiding.

Present: Representatives Staggers, Brewster, Pickett, Burton, Paxon and Nichols.

OPENING STATEMENT OF CHAIRMAN STAGGERS

Mr. Staggers. The subcommittee will come to order.

This morning's hearing will focus on the Department of Veterans Affairs Home Loan Guaranty Program. We will discuss the overall state of the program and focus on some specific issues.

It appears that the laws we have passed in the last several years have had a significant impact on the program by helping it achieve a sounder financial base, thereby diminishing the need for appropriations and making the home loan benefit a more valuable and useful one for all veterans. During this hearing, I also want to explore other areas that may need some fine tuning or that will enhance the viability of the program.

Hopefully, we will discuss the sale of loan assets by VA, including changes made in the way such assets are marketed, and the results of the most recent loan sales and plans for future sales. I am also very interested in hearing about the VA's efforts in the servicing and property management functions. Servicing and property management are vital parts of the loan guaranty program needing our careful attention.

It has been shown that personal servicing and careful attention to property management provide great dividends in saving loans from foreclosure and in marketing VA-acquired properties to their greatest potential. So far I'm hearing very good things about the efforts being made. The number of defaults and foreclosures are down, property sales are up, and the efforts made in these areas seem to be coming together.

I am, however, concerned about the slowness in the filling of additional positions authorized by Congress specifically for these areas. I hope to hear today that progress will be made in these areas.

There are two new areas to be considered with regard to the Home Loan Guaranty Program. It is time for Congress to look at making certain members of the Selected Reserves eligible for the home loan benefit.

The Congress just last month recognized the value of the Home Loan Guarnty Program when, as part of the Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act of 1991, it extended eligibility for veterans with at least 90 days of service.

H.R. 939, which would enable reservists and National Guardsmen to take advantage of the VA's home loan program after serving 6 years, would improve the fiscal status of the program by bringing in loan fees from what is generally perceived to be an older, more stable population that would incur fewer foreclosures. But I feel it deserves our consideration since the Reserve forces have progressively played a greater role in this country's defense—the Persian Gulf being a classic example.

With the changing world picture and a lessening in the number of active duty members in the regular armed forces, reservists and National Guardsmen will play an even greater role in the future.

The other area to be explored is the use of adjustable rate mortgages, or ARMs, in the program. As you know, this idea has been proposed before. The Department of Veterans Affairs is the only major mortgage market participant without an ARM. It may be time to explore this area again and offer veterans the opportunity of using this type of financing when using their VA benefits.

Before I welcome our first panel, I understand that Mr. Burton—Does he have a prepared statement?

Ms. COGGIN. He does have a prepared statement.

Mr. STAGGERS. Without objection, that will be entered into the record. I hear no objection. So ordered.

[The statement of Hon. Dan Burton appears at p. 51.]

Mr. STAGGERS. Does any other member want to make an opening statement? If not, we will proceed with our first witness, a distinguished Member of Congress, once a member of this panel, a very hard working individual. We look forward to hearing from Congressman L.F. Payne from Virginia, my neighbor across the border.

STATEMENT OF HON. LEWIS F. PAYNE, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. PAYNE. Thank you very much, Mr. Chairman, and thank you and the members of the committee for holding this hearing. I am delighted to hear the news concerning veterans' housing is such good news these days. I commend you for the work you've done over the past several years.

I am here today to talk about H.R. 1384, which will improve our veterans' ability to purchase a home by implementing a demonstration program to allow veterans to use adjustable rate mortgages, or

ARMs, on home loans through the Department of Veterans Affairs. I appreciate your support for this program, Mr. Chairman, and appreciate Chairman Montgomery's cosponsorship of this bill.

H.R. 1384 is identical to legislation which we passed last year in this subcommittee and by the full committee, as well as the full House. The demonstration program which would be established by passage of this bill will be fashioned after the HUD program. Since 1984, HUD has offered an ARM program which is considered very reasonable for borrowers in that it only allows a 1-percent rate adjustment per year, with a 5 percent cap over the life of the mortgage. H.R. 1384 will allow the Department of Veterans Affairs to implement an ARM program in fiscal years 1992 and 1993 in at least two of their regional offices and not more than ten regional offices. This is the same program that was passed in H.R. 5002 last July.

The adjustable rate mortgage has been the mortgage of choice in the last 5 years among homebuyers in today's market. However, the DVA is the only major mortgage market participant without such an ARM. Allowing the DVA to provide adjustable rate mortgages for qualified veterans will make the DVA housing program more fully responsive to market developments and more able to help our veterans.

A DVA-administered adjustable rate mortgage will allow veterans to purchase homes with lower monthly mortgage payments. And while I am on temporary leave from this committee, I am still very close to our veterans and I certainly want to do everything possible to help them to obtain the great American dream of being a homeowner. This bill will provide veterans even greater opportunity to fulfill this dream.

According to CBO estimates of the bill which we passed in 1990, this demonstration program will not result in any significant increases in program costs.

I thank you for the opportunity to present my views on this bill, and I look forward to working with you, Mr. Chairman, and members of this subcommittee, to help our veterans become homeowners. If I can answer any questions, I would like to do that.

Thank you.

[The prepared statement of Congressman Payne appears at p. 55.]

Mr. Staggers. You mentioned that you're on the Budget Committee—and that's why you're no longer on the panel—but we rely on your expertise and your support.

You did mention there may not be significant costs but that there would be costs. Wouldn't this possibly fall under the pay-as-you-go? Do you have any ideas where we would be looking for the money for this? I notice that in extending the program to Reserves and National Guard we're actually making some savings. Do you envision with the Budget Committee that this might be something we could do in tandem; or how do you envision us proceeding?

Mr. Payne. First of all, I don't think there will be an incremental cost. The only reason there would be incremental costs for this program is if there were higher defaults with adjustable rate mortgages than with traditional mortgages. The experience of HUD, which we recently checked again, has proven there has not been a higher default rate. So there should not be any incremental cost associated with this particular kind of mortgage. It's just a different option and it gives the veteran another choice as to how he might want to finance his home.

So I think the cost would be negligible, if any, and it would not be a budget consideration.

Mr. STAGGERS. I, and this panel have had problems with scorekeeping in the past with some of the things which we tried to accomplish. I agree with you. There probably would be no real cost. I'm just concerned about the scorekeeping aspect of it.

Can you assure us, that if we pass this, we're not going to be asked to come up with savings in some other place? That's why I mentioned the savings with extending benefits to reservists and National Guard. If we do it in tandem, then we won't be penalized in other programs.

I would ask for your guidance. However, as we proceed with this would you continue to monitor this so we don't get unfairly penalized. We do look to you for guidance and leadership.

Mr. PAYNE. Mr. Chairman, I will look at both this and the National Guard and Reserve component of this legislation and advise you as to what my findings would be on that.

Mr. STAGGERS. I appreciate it.

Are there any other questions?

Mr. NICHOLS. Have you been following the FHA's experience with their adjustable rate mortgages?

Mr. PAYNE. We have followed it. I guess they have programs now for, I believe, the last 5 years. Their most recent report, which was as of the end of April, was that HUD had not experienced any higher default rate with the adjustable rate mortgage than with their conventional fixed-rate mortgage program.

Mr. NICHOLS. As a former banker in my prior life, I might add that I certainly am in favor of this program that you're talking about, Mr. Payne. I think this would be a good option for the veterans and reservists so that they could choose what type of long-term financing program they would have on their homes. I think it's overdue.

Mr. STAGGERS. Mr. Brewster.

Mr. BREWSTER. I commend Mr. Payne for this program. Having some background in real estate and banking, I certainly agree with what Mr. Nichols said, that this is simply an option whose time has come. I think it allows the market to be more sensitive in each direction as interest rates change. I don't believe you will find any significant difference in losses as there would be with any other loan program. I commend you for bringing the program forward.

Mr. PAYNE. Thank you.

Mr. STAGGERS. I assume, since Mr. Pickett is from Virginia, that you've got him locked up and that's why he has no questions.

[Laughter.]

Thank you, Mr. Payne. We look forward to working with you.

Mr. PAYNE. Thank you, Mr. Chairman, and thank you, members.

Mr. STAGGERS. Our second panel will be from the VA, General D'Wayne Gray, the Chief Benefits Director, accompanied by Keith Pedigo and James Kane, if they would come to the table.

Without objection, your statement will be made part of the record. I hear no objection. So ordered. If you wish to summarize, that would be appreciated. You may proceed.

STATEMENT OF D'WAYNE GRAY, CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY R. KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE, AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

General **Gray**. I will summarize quickly, if I can, Mr. Chairman. Thank you for the opportunity to represent the Secretary of Veterans Affairs here today to discuss our Loan Guaranty Program.

As you mentioned, accompanying me are Keith Pedigo, who is the Director of the Loan Guaranty Service, and Jim Kane, who is the Assistant General Counsel of the Department, who serves as our chief advisor on legal and legislative matters with regard to the Loan Guaranty Program.

In your letter announcing this hearing, Mr. Chairman, you invited comments on several specific subjects, and I shall touch on each of those very briefly. They are more fully discussed in my formal statement.

First, however, I would like to extend to you and to the committee my apologies for the late delivery of that formal statement. We ran into some unexpected administrative delays in the coordination process. I regret this and I wanted to assure you and the committee that the VA did not and does not treat your deadlines cavalierly.

On loan origination, we are in a constant search for ways to improve our underwriting standards. In the past year alone, we have established limitations on builder and seller concessions, and we have also established specific underwriting and documentation requirements for certain active duty service members. We just published regulations in the Federal Register on our standards that must be used by lenders in underwriting our guaranty loans, including penalties for falsifying lender certifications of compliance. These and earlier efforts have produced some successes, as is evidenced by a sharp decline in the short-term defaults.

Loan servicing and property management, I think the trend lines do much toward telling the story. Defaults are down, foreclosures are down, and estimated cost avoidance of $50 million has been achieved through a supplemental servicing of loans in default in the first half of 1991 alone.

In managing our acquired properties, we have reduced the loss per property by about one third, while continuing to sell more properties than we are acquiring.

Our staffing levels are adequate. We are at the moment some 126 FTEE below the number estimated in the President's budget. Although I wish we were at full strength, when one spreads that shortfall over 46 field stations and the Central Office here in Washington, it puts it in a little different perspective. With these numbers on board, we are continuing our program of centralized, standardized training for our loan guaranty technicians.

The timeliness of our service to veterans seeking new loans is good to excellent at all regional offices, and as mentioned earlier, we are making significant improvements in servicing delinquent loans and in property management.

Our current procedures for the sale of loan assets are working well. The net up-front proceeds from our last three sales were approximately $132 million greater than the returns we could have expected under our earlier partial recourse structure. Our next vendee loan sale of about $300 million is scheduled to close on the 23rd of May.

Finally, Mr. Chairman, it will not surprise you that the administration continues to oppose legislation that would extend loan guaranty benefits to certain members of the Reserve component of the military services and the proposed legislation leading toward the use of adjustable rate mortgages in the Loan Guaranty Program.

I shant take any more time on these matters. I expect there will be discussion later in the hearing on them.

That concludes my statement, Mr. Chairman. My colleagues and I are at your committee's service.

[The prepared statement of General Gray appears at p. 57.]

Mr. STAGGERS. Thank you.

You stated in your prepared statement that you oppose extending home loan guaranty eligibility to the Reserves and National Guardsmen, but you really don't state a reason. As I said in my opening statement, they do seem to be playing a progressively greater role in the country's defense. This obviously would encourage retention and recruitment.

When you factor in that these people are usually older and are more established as residents of their communities, they will probably be a better credit risk.

Can you tell me why you have come to the conclusion of opposing this?

General GRAY. This proposed legislation, Mr. Chairman, is a bill which I can argue passionately on both sides. Certainly the contributions of the Reserve components over the last 9 months have been as great as the country has ever seen. One would not want, in any way, to denigrate that service.

I stand in amazement and respect, and I did during my own military service, at the ability of citizen soldiers, civilian soldiers, if you will, to do their regular jobs and at the same time remain in a constant state of readiness for call to the colors if it comes. I would not want my opposition to this bill to indicate anything other than a respect for those people.

But the Home Loan Guaranty Program was designed as a readjustment benefit, a benefit for those whose lives have been disrupted by military service. Those members of the Reserve components whose lives have been disrupted significantly have been included in legislation that has just passed.

Those who were called up for the Persian Gulf affair and served 90 days—and I think that includes all of them—are eligible for our programs as if they were long-term veterans. We're happy that this has occurred and we supported that concept. But the readjustment aspect did not seem to pertain to those who have not had their lives disrupted by active service.

There remains in our minds a difference between regular service and Reserve service. That difference is closing, as you pointed out in your statement, but we think this distinction is worth maintaining.

Although you said, Mr. Chairman, if I understood correctly, in talking with Congressman Payne, that this legislation would be a no cost bill, I don't think we can agree that that is so. It might not affect the scoring, i.e. early scoring in the current budget situation. Over time, however in spite of that fact—and we agree—that the Reserve component members provide a more stable and dependable group of borrowers, there will be defaults and costs to the Government in the outyears. This would work against our efforts to get this program where we have to ask you for as little in appropriations as we can to make it function.

The balance was delicate, Mr. Chairman. We came down on the side of opposing the legislation.

Mr. STAGGERS. I would have to agree that the original purpose was readjustment for those people coming home. Obviously, the program has changed a lot, even since I've been here. In fact, there was a drastic change when we got out of the direct loan type of proposals and went to the guarantees.

But if, in fact, we can make it sounder, if we can expand the base, without raising taxes or going through appropriations, it seems to me it makes sense. It seems that everybody wins, both the people who are extended the eligibility plus the people it was initially intended for. So I would have to disagree with your first point.

I feel like I'm getting whiplashed. I don't have the problem with you, but one time I'm arguing the scoring and the next time it's cost, cost and scoring, and I have to go with the rules that run this body. I guess in that sense I would have to disagree with you on the second one.

Hopefully, as we progress, we can continue this dialogue and get you to lean our way.

General GRAY. If I may, Mr. Chairman, let me say this. Should this legislation go forward, there would be no hesitancy in the Loan Guaranty Service or in the VA to implement it as fully as we can to those members of the Reserve component.

Mr. STAGGERS. Let me ask other members if they have questions, and then I'll come back.

Mr. Brewster.

Mr. BREWSTER. General Gray, you said at the outset that you could argue both sides of it, and I think you did that quite well. In fact, I think you may have argued my side more than yours.

Another point I would like to make, you mentioned you were also opposed to ARMs. As you know, life has changed and that's about the only thing constant. Ten years ago, an ARM was unknown. Ten years ago, S&Ls were doing a heck of a lot of lending. Today it's very difficult to find a lender in many cases. That's why, to me, it's important to extend it to the Guard and reservists as well as extending the ARM benefit.

I was curious in your opposition to the adjustable rate mortgage, when almost all other lending entities have gone in that direction.

General GRAY. Mr. Brewster, I thank you for that compliment on arguing your side of the position there. I hope I didn't do it too well.

Mr. **Brewster**. You did well.

General **Gray**. The proposed legislation on the ARM, is also something that one can see both sides of very easily. Our figures, though, differ. I hate to sit in this room and contradict a witness who is a Member of Congress, but our information is that the Government-sponsored ARM programs do have a higher rate of default, a higher rate of foreclosure, a higher rate of bad loans than do the conventional fixed-rate loans.

The chairman mentioned being whiplashed. I wasn't present, but I suspect that my predecessors here have been whiplashed as they came in and ask for significant appropriations for a program that, over the years, did not ask for any significant appropriations. I don't want to do that if I can avoid it, not because my skin is that thin but because we don't want to spend money unnecessarily.

As I understand it—and I would ask my colleagues here to tell me if I go astray—the Government-sponsored ARMs are relatively new on the scene and have not yet been in a world of the early 1980's with 16 and 17 percent interest rates, and quick rate changes. I worry about that aspect with our veterans.

My only purpose, Mr. Brewster, is to try to be an advocate for the 27 million veterans that we've got. I'm on their side, not on either side of this room. We are concerned about the volatility of those loans in inflationary times that could return.

Mr. **Brewster**. I certainly appreciate that, General Gray. I would appreciate seeing any documentation you might have of higher losses than other loans. Also, it has always been my feeling that there is a greater sensitivity on the upside as well, as far as keeping the integrity of the program alive. I'm one of the 27 million that you represent.

General **Gray**. Yes, sir.

Mr. **Brewster**. But I would certainly appreciate seeing any documentation on that, and we will try to get documentation from private lenders as well.

General **Gray**. We will provide what we have for the record, if we may, Mr. Brewster.

Mr. **Brewster**. Thank you very much.

(The information provided for the record follows:)

The most recent satistics we have on the performance of HUD-insured ARM loans, versus fixed rate mortgages (FRM's) are as follows:

Fiscal Year	Claim Rate (ARM's)	Claim Rate (ARM's)
1985	10.93%	11.41%
1986	5.18%	5.46%
1987	1.87%	1.96%

Mr. **Staggers**. Mr. Burton.

Mr. **Burton**. Thank you, Mr. Chairman. I apologize for my tardiness, but I blame it on the Mayor. The streets are so bad, and the traffic is backed up so bad, you can't get around in this town. You can leave a half-hour early and still get here late. So I apologize.

What is the VA default rate on veterans' loans?

General **Gray**. Let me defer to my "brains" here, if I may.

Mr. **Pedigo**. Mr. Burton, cumulatively, since the beginning of the program, 5.04 percent of the loans have gone to foreclosure. At the present time, we have about 3.8 million loans outstanding and approximately 126,000 of those loans are in a delinquent status.

Mr. **Burton**. So what is that percentage now?

Mr. **Pedigo**. I think it's somewhere around 3 percent.

Mr. **Burton**. So it is a little bit better right now.

If we went to giving VA loans to all reservists and National Guardsmen who wanted them, you don't think the percentage would change dramatically, or do you?

General **Gray**. Not dramatically, and the change would probably be for the better, Mr. Burton.

Mr. **Burton**. But if you extrapolate these figures out—let's say we kept the 3 percent default rate—do you have any idea how many new loans would be requested through the Reserves and the National Guard? Are there any figures on that?

Mr. **Pedigo**. It is very difficult to assess that situation. We believe that there are approximately 500-600,000 reservists and ex-reservists, who would qualify under the proposal that you're considering. We don't know how many of those would utilize the benefit in any given year, but we think it could be in the neighborhood of 5-10,000 per year.

Mr. **Burton**. Okay. Five- to ten-thousand per year would be added to the current Regular Army veterans and so forth that apply for loans?

Mr. **Pedigo**. That's correct.

Mr. **Burton**. If you take the 3 percent default rate and apply it to, say, 10,000 new applicants a year over the next several years, what would that do to the depletion of the amount of money that's available for loans?

Mr. **Pedigo**. I can't answer that. We would have to do a more in-depth assessment.

Mr. **Burton**. The reason I ask is that I think the stability of the VA loan program is very, very important. We have run into severe difficulties over the last couple of years, as you know. We have had to make additional subsidies or appropriations to keep that fund in good fiscal shape.

I would just like to know if there's any kind of actuarial trend charts you could make up that would show us what could happen if we had, say, 10,000 new loan applications a year that were accepted, and then you had the same 3 percent default rate, what that would do as far as accumulating additional liabilities to the fund and what that would mean as far as additional appropriation requests from the Congress of the United States.

I think this is very important, because the point that General Gray is making—I think this is correct—is that he thought this would cause an actuarial problem possibly down the road. If you make that kind of a statement, and assuming you're correct, that is going to have an impact on my vote, and probably some of the others, because we have a $400 billion deficit staring us in the face this year. So we have severe problems. We want to make sure we're making the right decision.

I would like to see, if it's possible—Mr. Chairman, I would like to ask that they submit this for the record—some kind of an estimated trend chart that shows, using current default rates, what kind of additional liabilities the fund would incur if we extended this to the National Guard and Reserve.

General GRAY. We would be glad to provide that, Mr. Burton.

Mr. STAGGERS. Would the gentleman yield?

Mr. BURTON. I would be happy to yield.

Mr. STAGGERS. I understood their testimony to be that actually the default rate might be better. So if you wouldn't restrict them to the 3 percent, but allow them whatever they feel is correct.

Mr. BURTON. Whatever you think would be a fairly accurate estimate of defaults, cumulatively, including the new ones, or using the same rate, that would be helpful.

General GRAY. Let us do it both ways, Mr. Chairman. Let us use Mr. Burton's assumptions and, if we have anything that we think is better than that, we will include that and include the reasons why we think they're better assumptions, and then run the trend lines out. Would that serve the committee best?

Mr. BURTON. Yes. Thank you very much.

(The information provided for the record follows:)

Under credit reform, Congress is requested to appropriate the estimated subsidy for guaranteed loans. This represents the total cost to the Government in present value terms. An additional 10,000 guaranteed loans to reservists would require $22.4 million in subsidy, assuming the same foreclosure rate that is expected for current veterans.

Mr. STAGGERS. Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman.

I would like to continue along this line about the experience that you're having with defaults. Has the policy been changed on VA loans that they are no longer assumable by a purchaser of the property? Am I correct in that?

Mr. PEDIGO. Mr. Pickett, legislation was passed in late 1987 that provided that, as to loans guaranteed after March 1 of 1988, an assumption can only be effected if the VA has the opportunity to approve the assumer from an income and credit standpoint. So any loans that have been guaranteed since that time are assumable on a limited basis. Loans made prior to that time are freely assumable.

Mr. PICKETT. Do you maintain your records on defaults separately so that you can evaluate the experience with those loans made after 1988 with the experience of those made before?

Mr. PEDIGO. Yes. We do keep it by cohort year. However, the information on loan assumptions prior to 1988 is rather sketchy, because we had the free assumability provision and thus we did not always know when a loan was assumed. So our records are somewhat incomplete.

Mr. PICKETT. What is your experience with the loans made after 1988 compared with those made before, as far as defaults are concerned?

Mr. PEDIGO. I cannot answer that at the present time, but I would be happy to take a look and provide it for the record.

Mr. PICKETT. The next question I was going to ask—and I think you're telling me that the records really won't support this—do you have a difference in the default rate between those loans that remain with the veteran purchaser as opposed to those where the property is sold and some other party has assumed the VA loan?

Mr. PEDIGO. Once again, we had some information along those lines on the pre-1988 loans. It was very sketchy. We weren't sure that it was highly reliable.

But since 1988, I believe we could provide more reliable information.

Mr. PICKETT. Your records would not allow you to say whether or not the default rate was higher or lower among those loans that had been assumed by nonveterans?

Mr. PEDIGO. I don't believe they would, but once again, I would like to check with my staff to see exactly the extent of the information that we could provide.

(The information provided for the record follows:)

When a GI loan is foreclosed, VA records on the case include information as to whether the defaulting borrower is the original veteran or a transferee. GI loans dated prior to March 1988 are, however, freely assumable and no report of a sale of the property subject to the loan is made to VA. Therefore, knowing the ratio of veteran/transferee owners on foreclosed loans does not provide useful information because we do not know the ratio of veteran/transferee owners for all outstanding GI loans.

Loans dated after March 1988 are not freely assumable. Loan assumptions require approval and payment of a fee to VA, so these records provide a ratio of veteran/transferee owners for outstanding GI loans.

Since fiscal year 1988, 401,434 GI loans have been originated. Of these loans, 0.43 percent (1,732) have been assumed and 0.32 percent (1,289) have been terminated with a claim paid by VA. We have not developed a veteran/transferee ratio for the terminated loans because the numbers are too small to provide meaningful information.

Mr. PICKETT. The other question I have relates to the adjustable rate mortgages.

General Gray, you mentioned that the risk is higher, but wouldn't the risk relate to the terms under which the ARMs would be offered—that is, the interest rate differential? The greater the differential, the more likely you would have a higher loss experience.

General GRAY. I think that is certainly one of the factors, Mr. Pickett. Of course, the susceptibility to rapid changes in interest rates is also something that needs to be considered and would also have an impact on risk.

In answer to your question, no, that is not the only thing that would affect it.

Mr. PICKETT. But you would agree that in those cases where a veteran purchaser might be offered a lower housing payment at the outset of his loan, that we potentially make more veterans eligible for the program?

General GRAY. Yes, indeed. That is true.

Mr. PICKETT. From an earnings capacity standpoint. That would broaden it, if we can solve this issue of whether or not your default rate would be disproportionately higher with ARM loans.

General GRAY. I think that's a fair statement, yes, sir.

Mr. PICKETT. Thank you.

Thank you, Mr. Chairman.

Mr. **Staggers**. We will take it in the order that the people came in. I know that Mr. Nichols was here before Mr. Paxon. No insult to your seniority, but being on time and being here pays off.

Mr. Nichols.

Mr. **Nichols**. Thank you, Mr. Chairman.

I wondered, as a result of the Persian Gulf conflict, whether you had an influx of new loan guaranty applications.

General **Gray**. What is our experience, Keith?

Mr. **Pedigo**. It is really too early to provide any meaningful information on that. We have not seen any indication that we have had a significant upswing in business as a result of Persian Gulf veterans returning. But we do expect to see an upswing in the next 6 to 12 months.

General **Gray**. We think, Mr. Nichols, there are about 150,000 new veterans, if you will, who are eligible for this program. Surely we're going to get some business out of them. We also expect to get some refinancing business soon, with interest rates going down.

Mr. **Nichols**. I would think so. It sounds very good. Thank you.

Mr. **Staggers**. Mr. Paxon.

Mr. **Paxon**. Thank you very much, Mr. Chairman. I think this series of witness panels today are most helpful to us in better understanding the problems.

I have just come from the Banking subcommittee meetings and I only have one question.

General, have the RTC property sales had an impact on your marketing of foreclosed properties? Do you notice that in certain regions or generally?

General **Gray**. Let me speak shortly first, and then ask Keith to elaborate if he needs to.

I don't know that we have been able yet to measure that. It has worried me. It has scared me. But whether it is just my own apprehension or whether it is really going to have an impact, I don't know yet, Mr. Paxon.

Do you know, Keith? Have you gotten reports?

Mr. **Pedigo**. The information that we are getting from our offices is that there has been little or no impact up to this point. However, the RTC has recently relaxed its criteria for selling properties; they're getting into auctions in a bigger way. I think it's safe to assume that there will be some adverse impact probably within the next year.

Mr. **Paxon**. Thank you very much.

Mr. **Staggers**. I have a couple more questions, if you don't mind.

General **Gray**. If I do mind, you still have a couple more questions, don't you?

[Laughter.]

Mr. **Staggers**. You talked about some of the results and some of the savings that we've been able to accomplish, and obviously we're thrilled at the good news.

I know you touched on this a little bit in your statement, but what about hiring the additional 126 people that you're currently authorized?

General **Gray**. I want them, Mr. Chairman, and I have got to find a way to control resource utilization in a way that each one of our offices does hire up to or near its allocated ceiling. I don't have a magic answer for you yet. To me, at least, it's not easy to keep precisely on the ceilings that we have around the country.

But we know that, with these added people, we can do more of the good things that we're bragging about here now. Exactly how we're going to do that, other than running around and hiring them all personally myself, I don't know. But we're going to find a way.

Mr. **Staggers**. I appreciate that.

The FHA provides buyers with a hypothetical payment schedule that discloses the maximum potential increase in monthly payments over the mortgage terms—for 5 years, I guess—when they talk about adjustable rate mortgages. Would you do something similar to that with an ARMs if it were passed, or could you envision doing something like that?

General **Gray**. Let me ask the program manager here, who is smarter than I am, about that.

Mr. **Pedigo**. To be perfectly truthful, we have not gotten to the point where we have tried to envision the different procedures that we would implement if we were to get an adjustable rate mortgage in our statutes. But certainly, if FHA has been doing this, I would guess that it serves a useful purpose to the borrower and we would give serious consideration to doing something similar.

Mr. **Staggers**. You would have the ability to do that?

Mr. **Pedigo**. We really can't predict what the economy is going to do. We don't know what rates are going to do 3 years down the road. My guess is that whatever HUD is providing is merely a projection of what the economy is going to do. So it would not be an exact statement of what the veteran borrower could expect. I would assume we would have to use the best economic information available in order to put together that type of statement.

Mr. **Staggers**. Switching tracks again, with new home construction, there have been some complaints. Is there any better way to protect the veterans, the purchasers of new homes?

Mr. **Pedigo**. I think you're probably referring to some of the complaints that have been received in the last 6 months on the 10-year homeowner warranties that are offered by many builders across the country.

The VA started participating in this 10-year warranty program back in 1977, and since that time over 300,000 loans have been guaranteed using this program. We have had very few complaints from veterans that they have not been able to realize a satisfactory resolution of any complaints that they've had with builders under this program—until the last 6 months.

During this last 6 months, we have had a pattern of complaints that has caused us to become a little more concerned. We have been meeting with our counterparts at the Department of Housing and Urban Development and we are going to adopt the recently-issued HUD regulations on 10-year backed warranty programs. We believe that those regulations will address the deficiencies that we have recently identified in that program and should eliminate some of the patterns of complaints that we have received recently.

Mr. **Staggers**. Thank you. If there are no further questions by any of the members, I thank the panel.

General **Gray**. Thank you, Mr. Chairman, and thank you for taking care of veterans.

Mr. **Staggers**. I am going to deviate from our schedule. Mr. Pickett has a markup very shortly, and Wendell White, from the National Association of Home Builders, is here, a close friend of Mr. Pickett's. So I am going to allow Mr. White to testify out of order, if he would please come to the witness table.

Mr. **Pickett**. Mr. Chairman, I first of all want to thank you and the other committee members for your indulgence. Mr. White is from Virginia Beach, which is in my district. He has been a long time friend and business acquaintance. He has an extensive record of participating in the VA loan program as a realtor, and in some cases also as an investor and participant in projects where the sales of houses have been financed with VA loans. So I think that Mr. White, being here today speaking on behalf of the National Association of Home Builders, can provide the subcommittee with a wealth of information about the practical application of the rules that are promulgated pursuant to the laws that are authored by this subcommittee.

So I hope you will listen very carefully, and also that you take the opportunity to question Mr. White, because he has a very broad knowledge of how these programs impact on purchasers and how the market today is reacting to VA programs. So it is a great deal of pleasure for me to present Wendell White of Virginia Beach on behalf of the National Association of Home Builders.

I'm going to have to leave because I do have a markup at another committee.

Mr. **Staggers**. Thank you, Mr. Pickett.

Mr. White, you may proceed.

STATEMENT OF WENDELL A. WHITE, PRESIDENT, PROFESSIONAL REALTY CORPORATION, APPEARING ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. **White**. Thank you very much, and thank you, Mr. Pickett.

Mr. Chairman and members of the subcommittee, good morning. My name is Wendell White, and I am pleased to testify on behalf of the National Association of Home Builders.

As Mr. Pickett said, I have been in all facets of the real estate business in Tidewater since 1968. I've been a builder/developer for the last 20 years. In addition, I have been working with the Home Loan Guaranty Program with the Roanoke office on a regular basis since 1970. I am past president of the Tidewater Builders Association, and I am a director of the National Association of Home Builders.

I appreciate the opportunity to appear before you to present the views of the National Association of Home Builders' more than 155,000 member firms, representing eight million employees, on the VA Home Loan Guaranty Program. Thank you for your invitation to testify.

I respectfully request that my written testimony be included in the House Veterans' Affairs Subcommittee on Housing and Memorial Affairs permanent hearing record.

Mr. **Staggers**. Without objection, so ordered. I hear no objection.

Mr. **White**. Thank you, sir.

NAHB greatly supports the VA Home Loan Guaranty Program. Its mission is important: to allow veterans the opportunity to buy a home and achieve the American dream. Such veterans, because of their service to our country, would not otherwise be able to own a home.

My remarks will concentrate on ways to improve and modernize the Home Loan Guaranty Program in order to better meet the needs of our veterans and active duty personnel.

I would like to first address the adjustable rate mortgages that have been discussed. To improve the Home Loan Guaranty Program, NAHB again strongly supports a VA adjustable rate mortgage for veteran homebuyers. We urge the passage of H.R. 1384, Representative Lewis Payne's legislation to create a 2-year demonstration ARM program in two to ten regional offices. The ARM would be patterned after the existing FHA ARM. The Veterans Affairs Department is the only major mortgage market participant without an ARM, yet about 25 percent of the home loans made in the United States last year were ARMs. We believe that the veteran consumer should have the same options for financing as other consumers.

A VA ARM is needed to modernize the VA Home Loan Guaranty Program. The Rouse-Maxwell Housing Task Force Report, "A Decent Place to Live," emphasizes that an ARM is necessary to make the program fully responsive to market developments.

Provision for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer. NAHB supports an ARM for the VA similar to FHA's adjustable rate loan. These ARMs limit yearly interest rate increases, as well as the overall rate escalation, which acts as a cap, which gives them additional protection. Additionally, a convertible ARM might be considered, which would allow a veteran to convert a fixed-rate loan after a set number of years.

ARMs have proven to be responsible, pro-consumer mortgage instruments and an important option for the homebuyer. Interest rates for an adjustable rate mortgage are typically 1 to 2 percent lower than a fixed-rate loan. This could result in a savings of over $100 a month in mortgage payments on the average VA loan at the outset.

Concern has been voiced that veteran homebuyers could be negatively impacted by ARMs during times of rising interest rates. However, with prudent underwriting and reasonable interest caps, homebuyers should not suffer from payment shock if upward interest adjustments occur. Moreover, if the ARM is patterned after the FHA ARM, there would be no negative amortization, a significant protection for the consumer.

When ARMs were first introduced, there were a number of variations that allowed for negative amortization. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

Another significant protection for the consumer is the requirement of the FHA ARM that mandates a written explanation of the features of the ARM. This includes a hypothetical payment schedule that discloses the maximum potential increases in monthly payments over the first 5 years of the mortgage term.

We urge you to support an ARM for the VA homebuyer, since we believe this would provide an added benefit for the veteran. We would be pleased to work with you in establishing a viable ARM alternative under the VA Home Loan Guaranty Program.

Next I would like to address the eligibility of National Guard and Reserve components. NAHB strongly supports H.R. 939, legislation to expand the benefits of the VA Home Loan Guaranty Program to members of the Selected Reserve of the Ready Reserve of the armed forces. Foremost, as we recently saw demonstrated, members of the Selected Reserve of the armed forces can be called up to perform the same hazardous duties as members of the armed forces on active duty.

Also, the VA Home Loan Guaranty Program serves not only as a reward for service rendered, but as an inducement to attract qualified volunteers into our country's military service. The severity of our Nation's housing affordability crisis has made the opportunity for homeownership an attractive inducement to military service. Eligibility for the Home Loan Guaranty Program would increase the quality of our National Guardsmen and Reserve members by enlarging the pool of prospective applicants.

Importantly, expanded entitlement would significantly enhance the financial viability of VA's Guaranty and Indemnity Fund. Selected Reserve veterans are less likely to default on their loan obligations because they are generally older, more mature, and better educated than persons on active duty. In addition, they usually remain in their community throughout their military service. The portion of reservists with at least a high school education is 92 percent, versus only 80 percent for veterans with active duty military service.

To participate, Selected Reserve veterans must have served at least 6 years. During this time, they will have established their regular careers while they earn additional income through their service in the Selected Reserve. Active duty service persons, on the other hand, are generally only receiving their military pay. Recently discharged active duty veterans are usually in the beginning stages of establishing themselves in the work force. Finally, the Selected Reserve veterans would be required to pay an increased indemnification fee and, therefore, would not receive an identical entitlement.

In my area of the country, the VA appraisal process—to change the subject slightly—is slightly off target. In numerous instances, appraisals are deliberately and unnaturally low, probably due to the number of foreclosures.

In many cases, appraised values are lower than the actual worth of the home. For example, a VA appraisal on a recent new home sale to a veteran came in over $2,000 low. There were other closings of the same model type, the same subdivision, at higher prices, that took place during the same period, that this veteran was due to close. The VA would not raise the appraisal to comparable value.

Due to the fact that this veteran purchaser was on duty in Desert Storm, the builder elected to close the loan and take the loss unnecessarily.

The time to process an appraisal at the Veterans' Administration is also a concern. HUD appraisers are allowed to take an appraisal directly to a mortgage company, to be approved by that lender with that submission at that time to HUD. This process could save the VA a lot of administrative time and increase the efficiency of the program.

Another recommendation that would prevent many foreclosures would be to again allow VA loans to be assumed without the present restrictions. Veterans that need to sell their homes and cannot due to the present market conditions may be forced to allow their homes to be foreclosed by the Veterans' Administration. After foreclosure, the VA then allows investors to purchase their homes at a reduced price with little or no money down, compounding the problems of value and creating hardships for the veterans.

I would like to address staffing levels. It is well known that staffing shortages in the VA's offices throughout the country negatively affect the operation of the VA Home Loan Guaranty Program. Program losses and processing delays could often be avoided if appropriate staff levels were provided.

NAHB believes that there is a direct correlation between additional full-time equivalent employees and savings to the program through the prevention of foreclosures. The Houston pilot servicing project proves that the cost of additional staff is eclipsed by the monetary savings to the program made possible by the increased number of work hours. During the project period, the average number of loan service representatives was 19.55. The average number before the pilot program was 10.

The Houston pilot servicing project was successful from a cost/benefit standpoint, documenting savings due to reduced foreclosures in excess of $11 million. The estimated cost of the project was only $310,000.

Clearly, staff shortages cause significant processing delays. In some field stations, we understand that it takes 1 to 2 months to process VA guarantees. These VA offices cannot effectively handle their current workloads. If veteran homeowners refinance their loans, as requested by the VA, workloads would increase. Loan originations will suffer as a result. Accordingly, NAHB urges Congress and the Department of Veterans Affairs to provide adequate staff levels.

Concerning the FY 1992 budget proposals, the Department of Veterans Affairs fiscal year 1992 budget proposes several legislative changes to the VA Home Loan Guaranty Program, including, number one, making permanent the .625 percent increased funding fee currently due to expire on September 30, 1991; including VA's average loss on resale in the determination of the net value calculation; and requiring a 2.5 percent fee and a 10 percent downpayment for multiple use of the Home Loan Guaranty Program benefit.

The administration's proposed changes to the VA Home Loan Guaranty Program would make it much more difficult for the program to achieve its original mission of assisting our servicemen and our servicewomen returning from duty to purchase homes. The proposed changes would weaken key benefits of the Home Loan Guaranty Program, making it much less accessible for the Americans who have served our country. Opportunities for homeownership for our veterans would be greatly diminished if the suggested changes become law. We commend you for wisely rejecting the administration's budget proposals.

In conclusion, we have worked well in partnership over the years in providing homeownership opportunities for the men and women of the armed forces. Congress must continue to provide assistance to veterans so that they will continue to have the opportunity for affordable homeownership.

Thank you for allowing us to present our views. We look forward to continuing to work with your committee in providing affordable housing both for veterans and military personnel.

I would be very pleased to respond to your questions.

[The prepared statement of Mr. White appears at p. 99.]

Mr. **STAGGERS**. Thank you, Mr. White.

Mr. Burton, do you have any questions?

Mr. **BURTON**. Thank you, Mr. Chairman.

Well, I have to leave, Mr. White, but as a fellow realtor, I want to tell you we welcome you to the committee, and we certainly appreciate your comments. We will try to study this very thoroughly and do the right thing.

Mr. **WHITE**. Thank you, Mr. Burton.

Mr. **STAGGERS**. Mr. White, you just stated that some feel the stations are taking from 1 to 2 months to process VA guarantees. You may have heard the VA testify that they're trying to get the right people at the right places.

Can you identify for the record those field stations, or if you can't now, can you provide us with the stations that you used as an example?

Mr. **WHITE**. I would be glad to provide an example and would like to address it later. I am only personally familiar with my own station, but NAHB will provide you with a list.

(The information provided for the record follows:)

NATIONAL ASSOCIATION OF HOME BUILDERS,
1NATIONAL HOUSING CENTER,
Washington, DC, June 25,, 1991.

Hon. HARLEY STAGGERS,
Chairman, Subcommittee on Housing and Memorial Affairs,
House of Representatives, Washington, DC.

DEAR CHAIRMAN STAGGERS: On behalf of the National Association of Home Builders, I would like to thank you once again for allowing us to present out views on the VA Home Loan Guaranty Program before your Subcommittee on Housing and Memorial Affairs. At this time, we would like to respond to your requests for information made during the May 2nd hearing.

Our statement indicated that in some filed stations it takes 1 to 2 months to process VA guarantees. However, research recently performed indicates that such processing delays have been largely eliminated. We believe the primary reason for the improvement has been the nationwide reduction in housing activity, rather than increased staffing levels or increased efficiency by the VA Department.

Finally, attached is a copy of "A Decent Place to Live", the 1988 Report of the National Housing Task Force which you requested.

Se would be pleased to provide any further information. Thank you once again for your attention to our views.

Sincerely,

ROBERT D. BANNISTER,
Senior Staff Vice President.

Mr. **STAGGERS**. I appreciate it.

You also referred to a Rouse-Maxwell Housing Task Force report, which I'm very interested in. Can you furnish that to the subcommittee so it can be made a part of the record?

Mr. **White**. Yes, I would be glad to.

Mr. **Staggers**. I would ask unanimous consent that that report, when we get it, be made a part of the record. I hear no objection. So ordered.

[The report is retained in committee file.]

Mr. **Staggers**. In regard to ARMs, you state that, with prudent credit underwriting and reasonable interest caps, homebuyers should not suffer from payment shock. Can you explain a little bit more how that should be done to protect the buyer?

Mr. **White**. I would be glad to, Mr. Chairman.

Under the FHA ARM right now, the beginning rate is 7 percent, which allows a lot of people to buy homes that wouldn't ordinarily be able to. The rate can only increase 1 percent a year for 5 years. So the maximum over the life of the loan could be 12 percent, which in the first 5 years would only average about 9-1/2 percent. I think normally, a person that would be going into this kind of mortgage, would be a person that would know that they have some future increase in earning power and it's a way to get into homeownership and get some of the things that they need to do initially out of the way.

I believe it has worked very well for FHA. We have watched it over the years. I think it's an excellent tool and a product that should be available to veterans.

Mr. **Staggers**. How do builders view the homeowner's warranty insurance? We've gotten a few complaints because of the defects, which you may have heard earlier about, also.

Mr. **White**. I have heard of a few complaints like that, but I think probably the biggest problem that has occurred is due to the economy, that there has probably been some builders that have gone into default. It has probably caused some of the problems.

Generally, I think the builders in good standing, that have a 10-year warranty—and there are a number of 10-year warranties that are excellent programs—haven't really had difficulties because, customarily, the warranty programs call on the builders to take care of any defects, particularly in the first 2 years. But I believe that you will find, if you look into the background of the complaints, it will be builders that have probably fallen into default and have had problems getting houses completed after that point. I think that's what it is.

We will be glad to research that and provide the committee some information.

Mr. **Staggers**. Thank you, Mr. White.

I have no further questions. If there are no further questions, we thank you. You should be very proud of Mr. Pickett. He is a very active member of this committee and a very active Member of Congress. You should be very proud of him.

Mr. **White**. We are very proud of him. He's done a fantastic job. Thank you very much, sir.

Mr. **Staggers**. We will now return to the posted schedule. The next panel will be Mr. Schultz, Mr. Johnson, Mr. Dupree and Mr. Cullinan.

As was earlier stated, all prepared statements will be made a part of the record. Feel free to summarize, and proceed in whichever way you want.

STATEMENT OF RICHARD F. SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. SCHULTZ. Thank you, Mr. Chairman. I will just briefly summarize my statement.

Initially we would like to thank you for the opportunity to present our views here today. At the outset we would also like to acknowledge your outstanding advocacy on behalf of our Nation's veterans.

Mr. Chairman, as you know, over the past decade we have witnessed the tragic increase in loan guaranty defaults requiring the infusion of more than $4 billion into the loan guaranty revolving fund. Also, as has been pointed out here earlier, and as we have testified before, the Houston pilot servicing project demonstrates beyond a doubt that aggressive loan servicing is cost-effective. As you know, this program, over a 12-month period, has saved some $11 million, and in some cases the VA estimates that these savings could be doubled based on the defaults where there was no direct lender intervention.

The DAV commends the VA on its improved performance in the loan servicing area and for the positive steps they have taken to assure that VA's Home Loan Guaranty Program is properly managed. We are also pleased with the results of VA's loan servicing unit and would urge the VA to expand efforts in this area.

Mr. Chairman, I would also like to point out that the Loan Guaranty Program now has an additional 200,000 individuals eligible as a result of Desert Storm/Shield. We believe that our request in the independent budget for additional FTEEs would certainly help with the increased number of people coming into the program. I would also like to add that the DAV believes there is another area of concern that we have, and that is the fact that the VA lacks the ability to financially assist veterans who have temporary financial problems causing them to go into default. We would urge you to again introduce the legislation that you did last year seeking mortgage foreclosure assistance for our Nation's deserving veterans.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schultz appears at p. 107.]

Mr. STAGGERS. Mr. Johnson.

STATEMENT OF RICHARD JOHNSON, DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERCIA

Mr. JOHNSON. Thank you, Mr. Chairman. I, too, will attempt to be brief in my comments this morning.

Let me begin by saying the Association truly appreciates the opportunity to be here this morning, and we are here in strong support of H.R. 939, and we continue to oppose adjustable rate mortgages as proposed in H.R. 1384.

Regarding H.R. 939, the total force concept that the United States employs today assures that the armed forces will never again engage in major operations or conflicts without the participation of Reserve and National Guard components. Reserve and National Guard components, of course, demonstrated their abilities in Grenada, Panama, and now in the Kuwaiti theater of operations. They deserve the benefits of such service and we strongly encourage the committee to adopt this legislation providing home loan guarantees to these individuals.

The Association has not changed its position on adjustable rate mortgages since we first testified on this subject before the committee several years ago. We continue to believe that adjustable rate mortgages have a target audience that does not include veterans. For example, few people realize that a 2 percent increase in an adjustable rate mortgage means an 18-1/2 percent increase in a monthly mortgage payment. Even using the FHA schedule of limiting increases to 1 percent per year would allow an increase in monthly mortgage payments of nearly 10 percent per month, and would allow an overall increase in a mortgage payment of 45 percent over the 5-year adjustable period of the loan.

ARMs are plagued by problems which are acknowledged within the mortgage industry, including the possibility that as many as half are improperly calculated, usually in favor of the lender. But one of the things that is key here in the testimony of all the witnesses who have supported ARMs this morning is they have all come to the conclusion that an adjustable rate mortgage would qualify an individual for a loan they would not otherwise qualify for without the adjustable rate mortgage.

Quite frankly, that tells me one thing, that we're not out to protect veterans; we're out to make sure that veterans get mortgages which they can't afford. We are out to make sure that people who do not have a sufficient income to qualify for conventional mortgage financing are allowed into a mortgage market on the basis of anticipated income, something that cannot be guaranteed.

Particularly in this program, where we deal with widows and veterans on fixed incomes, this is a very dangerous idea. These mortgages are designed to facilitate loan originations in a slow housing market. They are not designed to assist the mortgage buyer or the homebuyer. They are designed to assist the mortgage banker. That is where they originated and that is who will benefit.

With that, Mr. Chairman, I conclude my remarks. I thank you again for your patience.

[The prepared statement of Mr. Johnson appears at p. 112.]

Mr. STAGGERS. Mr. Dupree.

STATEMENT OF CLIFTON E. DUPREE, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. DUPREE. Good morning, Mr. Chairman, and members of the subcommittee. On behalf of the Paralyzed Veterans of America, I would like to thank you for inviting us to testify today.

I want to begin by saying the PVA supports both legislative initiatives, and by conveying our gratitude for the time and effort you and the committee have devoted to these programs.

The existence of a viable benefit program to assist veterans in purchasing homes remains extremely important to the members of the PVA. Limited to accessible housing in an economy which has seen the cost of houses and construction more than double over the past decade, individuals using wheelchairs are especially vulnerable in the national housing market and regional recessions, such as that experienced in the oil-producing States in the 1980s. VA's Home Loan Guaranty Program has, without question, enabled many paralyzed veterans to become homeowners.

Mr. Chairman, for that reason, we take special interest in the well-being of this important benefit program. PVA continues to believe that the VA Home Loan Guaranty Program is an effective and necessary benefit for all veterans.

VA's offer of a fully guaranteed mortgage loan, with no downpayment requirement, has for over 46 years enabled more than 12 million American veterans to purchase and maintain a home. The program is administered in 48 of the 59 regional offices. A veteran goes to a lender to get a loan and DVA guarantees a certain percentage of the loan to the bank in case it should go to foreclosure. It should be noted that mortgage bankers account for approximately 90 percent of DVA-guaranteed loans. DVA regulations allow certain bankers to underwrite loans on an automatic basis, without the VA's prior approval. Approximately 85 percent of all DVA loans are underwritten automatically.

Mr. Chairman, we believe it is certainly an appropriate time to consider legislation which would extend authorization for members of the Selected Reserve to participate in the home loan program. The Reserve forces have taken on new importance to the active armed forces over the last few years, as shown by their sterling performances in Operation Desert Shield and Desert Storm. If they can serve in the Persian Gulf to ensure freedom in the world, the least we can do is extend this overdue and well-deserved benefit.

In reference to the adjustable rate mortgage, it has become commonplace in the home loan market. Currently, VA is the only major mortgage market participant without an ARM program. We believe it is only appropriate for the VA to provide a demonstration program utilizing adjustable rate mortgages to make the program fully responsive to market developments.

PVA believes, however, that to start, the DVA demonstration ARM program should be conservative. There should be limits on yearly interest rate increases, as well as a maximum interest cap over the life of the loan, granting certain protections to the veteran program participants. Tailoring an ARM program to those guidelines used by the Federal Housing Administration could also be established by the DVA. The FHA adjustable rate mortgage program allows interest rates to escalate no more than 1 percent per year with a cap of 5 percent over the life of the loan.

This demonstration program, as authorized by H.R. 1384, would be carried out during fiscal years 1992 and 1993 by at least two, but not more than ten, VA regional offices for 2 years in a manner similar to FHA's adjustable rate mortgage program. The Secretary would submit a report to Congress no later than December 31, 1993, containing a description of the results of the implementation of the project carried out under this provision.

On legislative proposals from the administration, PVA would like to again oppose legislative proposals pertaining to the VA

Home Loan Guaranty Program contained in the administration's fiscal year 1992 budget recommendations which would restrict veterans' participation in the program by imposing downpayments or by increasing user fees. Such additional burdens on the veteran homebuyer can only decrease participation in the VA program and eventually further erode the integrity of the Guaranty and Indemnity Fund.

We applaud your efforts, Mr. Chairman, and the work of this subcommittee for providing immediate and strong opposition to these proposals. We continue to believe you have provided, through Public Law 101-237, a framework within which the Department of Veterans Affairs can potentially operate a stable and solvent program.

In addition to ensuring creditworthiness, VA management must provide adequate loan servicing, accurate appraisals, improved marketing of properties, and effective regulation and oversight of lenders. Such policies, coupled with sufficient levels of FTEE to provide adequate service, oversight and counseling for veterans should restore financial solvency to a program which has served our Nation's veterans and active duty members for over four decades.

Ultimately, VA's ability to incorporate internal controls and policies aimed at preventing bad loans and foreclosures will determine the success of the program. We encourage this subcommittee to engage in aggressive oversight of the Home Loan Guaranty Program and, by so doing, ensure that the veterans who have served this Nation will receive the best service the VA can offer.

Any change to the current program must ensure that the fundamental focus of the program—to assist eligible veterans in obtaining mortgage credit at lower interest rates without a downpayment, and to include adjustable rate mortgages for the purchase of existing homes and construction of new homes—remains fully intact. The program must ensure that all eligible veterans continue to fully realize the same benefits which they are receiving today.

In conclusion, Mr. Chairman, PVA looks forward to working closely with the subcommittee and the staff to secure passage of legislation that would bring equity to the Home Loan Guaranty Program.

That concludes my testimony, Mr. Chairman. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Dupree appears at p. 114.]

Mr. STAGGERS. Mr. Cullinan, I apologize for jumping over you, from Mr. Johnson to Mr. Dupree. There was no slight intended. You are well aware that we take people in the order we received the testimony. No slight was intended, and I apologize.

STATEMENT OF DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. CULLINAN. None taken whatsoever, Mr. Chairman. The VFW is aware of that historical precedent.

I would like to thank you, on behalf of the entire VFW membership, for inviting us to participate in today's hearing. The VFW is a strong supporter of the VA home loan program and we welcome every opportunity to participate in improving its function.

With respect to the overall operation of the program, we note that at this time it seems to be running quite well—better, in fact, than many had anticipated. We have not received any reports from the field that veterans are experiencing inordinate delays in most cases with respect to processing of their eligibility certificates or, indeed, the loans themselves.

We favorably note the VA's statistics and earlier commentary, that their property management has improved, that the numbers of loan foreclosures are down and so on. This means to us that some of the Veterans of Foreign War's past advice, as well as the other VSO's, is being heeded by VA; namely, they're putting more people into helping veterans keep their homes and, in the unfortunate event of a home going into default, they are able to sell the property much more quickly.

I will now move on to H.R. 939, which would expand the loan program to Selected Reserve and National Guardsmen. The VFW opposes this particular measure. We readily acknowledge that it may make financial sense to include these relatively financially able individuals in the program, but the VFW continues to view the VA home loan program as being a veterans readjustment benefit. We point out that under current law members of the National Guard, as well as Reserve who serve on active duty for either 180 days during periods of peace or 90 days during periods of war, including the Persian Gulf, are already accommodated by the program. So this measure would specifically direct itself to those who were not called to active duty.

We fully appreciate their contribution to our national security formula, but we just don't see that kind of staying-at-home service as being on a par with active duty military involvement.

With respect to H.R. 1384, which would establish a VA ARM program, an adjustable rate mortgage pilot program, the VFW continues to have strong reservations about VA ARM's. We know for one thing the timing could be considerably better. Property values at this time are depreciating, which makes ARM holders even in a more difficult or tenuous position than is normally the case. We note the fact that, as Mr. Johnson observed earlier, that there have been problems of late with the annual calculations that are made in ARMS, up or down, with respect to the interest that is paid, and usually those miscalculations are in the bank's favor. There is no way that a regular veteran, or an extraordinary veteran for that matter, is going to be able to discern whether he's being treated fairly or not. We just see ARMs as being too problematic for veterans and, in fact, for the VA.

That concludes my statement, Mr. Chairman.

[The prepared statement of Mr. Cullinan appears at p. 117.]

Mr. STAGGERS. With respect to your opposition, Mr. Cullinan, to H.R. 939, if you listened to the testimony of the VA, they are also in opposition. The way General Gray characterized it was that it was a close call.

Can you give me more insight as to the opposition? I understand the readjustment purpose. I think that is something we all agreed with, and the program has gone through a lot of changes, as I said, just since I've been here. Can you give me a little bit more insight into the opposition?

Mr. CULLINAN. It's a veterans readjustment benefit. Even if you delete the word "readjustment", and just say a veteran's benefit, in our view a veteran is someone who is really defined under title 38, who has served a certain period of time on active duty. That means they have disrupted their lives. In many cases, they have foregone educational and employment opportunities that were available to their contemporaries in the civilian sector.

Now, while the National Guard and Selected Reserve play a part, an important part, in the national security formula, their lives aren't disrupted. These individuals aren't asked to go out for the most part and spend from 2 to 4 years in active duty service, giving up numerous opportunities at their homes and jobs and universities.

That's at the very core of our objection. These individuals do not have to undergo the same deprivations and do not have to offer up the same sacrifices as do veterans of the active duty armed forces.

Mr. STAGGERS. I thank you for that. You know, we're going to be struggling with this. You heard Mr. Burton's remarks from an actuarial standpoint, so we are struggling with it. I appreciate your comments and your insight.

Mr. Schultz, you state the DAV has no convention mandate on H.R. 939. Are you planning on bringing it up at your convention?

Mr. SCHULTZ. Mr. Chairman, I have no idea what our departments will bring in. But generally speaking, our national convention delegates deal with issues that deal with service-connected disabled veterans benefits. As such, I would not foresee this coming to our national convention delegates.

I do note what Mr. Cullinan said, and I certainly agree that this is a veterans benefit. If these individuals are not defined as veterans and are, in fact, not veterans within the meaning of the law, then I also recognize the problems. The intent of this legislation is to help bring the program into a better financial footing, so there is obviously an issue that you have to grapple with, on whether you want to make it a benefit for just active duty members or of you want to bring in the Reserves.

I know I'm not offering you a whole lot of advice here, but we just don't have a position. I can see both sides to it.

Mr. STAGGERS. I appreciate it.

Mr. Johnson, you recommended there be no fees for veterans who served during the Persian Gulf war. It seems like you're recommending a subsidy for the full amount, similar to what is being done for the service-connected veterans.

Would you see this for a specific or indefinite amount of time?

Mr. JOHNSON. I would see it for at least the initial use of the loan, and that proposal is not in any way related to disabilities or otherwise. What we're looking at is the traditional benefits that have accompanied wartime service in the armed forces. One has been a free home loan, free education benefits, and so on down the litany of things.

Obviously, the length of the war or the number of people killed just hasn't moved Congress to mandate the reinstatement of those benefits for wartime service in the Persian Gulf. I would like to see some accommodation made to Persian Gulf veterans. This would probably be the least expensive of the options.

Mr. STAGGERS. Thank you.

Mr. Dupree, in both today's testimony as well as in testimony at the last hearing, you talked about improving the data processing system. Do you have any comments on the loan guaranty data processing system?

Mr. DUPREE. I don't have any direct comments. We can provide a statement for the record.

Mr. STAGGERS. I would appreciate that. I only have limited jurisdiction in what we can do. That may be something we may be able to accomplish.

Mr. STAGGERS. I thank the panel. I appreciate you all coming in and look forward to working with you all in the future.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. STAGGERS. The next panel we have is Mr. Rodenberg, Mr. Weber, Mr. Cline and Admiral Smith.

Mr. Rodenberg, I understand you're a last minute substitution, so if you would want to proceed.

STATEMENT OF MAJ. GEN. EVAN L. HULTMAN, AUS (RET), EXECUTIVE DIRECTOR, RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES; DELIVERED BY JAMES A. RODENBERG, LTCOL, USAF (RET), LEGISLATIVE COUNSEL, RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES

Colonel RODENBERG. Thank you very much. Yes, I am substituting for General Hultman, who we anticipated would be here. He was asked to come in for some tests at Walter Reed this morning and he is not here. So it is a real pleasure for me personally to be here and we appreciate this opportunity. The Reserve Officers Association, representing more than 100,000 members from all the uniformed services, appreciates the opportunity to address the subcommittee.

We would express our appreciation to you personally for initiating H.R. 939 and having this hearing this morning. I will confine my comments to H.R. 939 because we do not have a position on the ARM and I will not attempt to get into that.

First of all, a lot has been said this morning about the great job the reservists did in the Persian Gulf. I won't take a lot of time as I understand our statement will be in the record and we appreciate that.

I would call attention to the fact that there were about 228,000 reservists called up in total to support the Desert Storm operation. About 106,000 of those served in the Gulf, or nearly one-fifth of all the persons serving in that conflict were reservists.

A lot has been said about their outstanding performance. I would just quote from a statement made by Hon. Stephen Duncan, the Assistant Secretary of Defense for Reserve Affairs: ". . . there can be no doubt that both the call to active duty and the performance of the National Guardsmen and reservists who have served in connection with that conflict have been marked by extraordinary success." The Chairman of the Joint Chiefs used the word "magnificent" in describing the performance of the reservists. The point is, of course, they did serve and did serve well.

I would like to respond to some things that have been said here this morning. I may be getting into some ground that I'm not absolutely sure of, but the comment was made that the VA home loan is a veterans' adjustment program, and suggested some that perhaps reservists may not have made some of the same sacrifices and so on.

Public Law 102-25, the Persian Gulf benefits package that we have and which we supported a great deal, if I'm correct, provides VA loans for those serving in the Gulf for 90 days or more. I do not believe that it includes the many reservists who were called up, who may have sacrificed just as much or more as those serving there but will not be covered. If I'm incorrect—I believe it's just the ones serving in the Gulf.

Be that as it may, there will have been some who were called for 80 days perhaps, whose lives were disrupted a great deal, who will not be eligible for VA loans. The program that you're suggesting, H.R. 939, would make many of these eligible, having served 6 years, or ultimately they would be eligible. I think that is important to keep them in mind and be very fair.

I can say that I personally served 23 years on active duty, but I have been with this Association and have gained a great deal of appreciation for what reservists do. I have a brother who has 3 years in the active Army and would qualify for a VA loan. If we're going to compare the kind of sacrifices made, I would suggest to you that many reservists, who have served 6 years, and perhaps were in Just Cause and now in Desert Shield, have sacrificed a great deal more than did my brother. I think it is terribly important, that reservists have incentives.

I will close now. If you have any questions, I would be glad to respond.

[The statement of Maj. Gen. Evan L. Hultman appears at p. 121.]

Mr. STAGGERS. Thank you.

General Weber.

STATEMENT OF LT. GEN. LA VERN E. WEBER, (RET), EXECUTIVE DIRECTOR, NATIONAL GUARD ASSOCIATION OF THE UNITED STATES

General WEBER. Thank you, sir.

Mr. Chairman, on behalf of the 56,000 members of the National Guard Association of the United States, we are most pleased to have the opportunity to appear before the subcommittee here this morning. I'm pleased that you have indicated that my formal remarks will be a matter of the record.

We would like at this time to thank you and to commend this committee—in fact, the Veterans' Affairs Committee of the House—for your continuing and ongoing efforts in dealing with and caring for the veterans of this country.

We have had some very, very active programs, some of which are 50 years old now. Both the GI bill, which you have steadfastly supported, and the veterans' home loan benefits are very beneficial and, in fact, vital to the Army and the Air National Guard.

We would also like to commend you and this subcommittee for your aggressive actions last year in a very short time in getting the bill moved forward dealing with home loans for National Guardsmen and reservists. We only regret that the Senate couldn't react as rapidly and we didn't get it as a matter of law. But we appreciate very much the efforts that you put in last year and are grateful to you for taking the action to get it back on the agenda early this year.

With these older programs, they have undergone many, many changes, some with respect to definition of what a veteran is, and others that deal with variations in the times required for service. But the program has survived and it has served all of us well.

We applaud the House Committee on Veterans' Affairs, and this subcommittee as well, for the aggressive action that you took recently with respect to bringing the 230,000 members of the National Guard and Reserve into the veterans' program. That will be a great assist to us and we are grateful for that.

On the passage of the Personnel Benefits Act of 1991, I am absolutely amazed with the rapidity and the scope that the committee dealt with that. We are grateful to you for that.

First of all, I would say that H.R. 939 is great and we support it in its totality. We have one program that is somewhat unique to the National Guard, in that we have two programs of our full-time employees. One is a military technician, which is an altogether different program, but we have one we call the active Guard and Reserve, where we bring in Guardsmen and reservists on active duty. In the case of the Guard, we bring some in under title 32, and another group under title 10.

The issues are somewhat administrative, and yet they are technical and legal issues with respect to this proposed legislation. With the chairman's permission, we would like to work with your staff and clarify some of these idiosyncracies between the two programs. But we do need equitability there between the title 32's and title 10's.

These individuals all require the same qualification standards and the same educational standards, the same work requirements. They are just placed under two segments of the law. The National Guard Association wholeheartedly supports H.R. 939.

On the issue of H.R. 1384, the bill of Mr. Payne and Mr. Montgomery, we see that as a sound method to explore the possibilities of working with the issue. We have no particular strong position on it. We are not in the financial management business. But we would encourage that you do undertake that bit of an examination, or test, if you will. I am sure we would then be able to deal with changes if they're necessary in the future.

Thank you very much for the opportunity to present my testimony this morning.

[The prepared statement of General Weber appears at p. 128.]

Mr. **Staggers**. Thank you, General Weber.

Mr. Cline.

STATEMENT OF M. SGT. MICHAEL P. CLINE, EXECUTIVE DIRECTOR, ENLISTED ASSOCIATION OF THE NATIONAL GUARD OF THE UNITED STATES

Sergeant Cline. Thank you, Mr. Chairman. I have to echo the thoughts of my counterpart, General Weber, on having your bring this legislation before us again and introducing it on behalf of the members of the National Guard.

As you are well aware, the Enlisted Association represents all members of the Army and Air National Guard. We feel that H.R. 939 will improve the lives of our members. When you give soldiers added benefits, it seems to motivate them, they have higher morale, are more dutiful in their military tasks, making the unit more highly motivated, and you have a well-prepared force. A well-prepared force enhances our national security, and the Guard and Reserve have proven that this force adds value to America.

We at EANGUS give our full support to H.R. 939. There are five areas that are going to benefit from the passage of this legislation, the National Guard, as a whole, and the Reserve component, through increased retention. Such retention adds more experienced troops to the Guard and Reserve, and it adds stability to the Guard and Reserve.

The individual enlisted soldier will benefit. It can improve the quality of his life through new homes, or the repairing of old ones. They can take advantage of the benefit now because it is affordable to them.

The Department of Veterans Affairs will benefit. It will add interest revenues for every loan made. These revenues will help stabilize the financial position of the DVA and help ensure the survival of the program.

Fourth, hometown economies will benefit, with the increase in construction, materials and labor. This can only help to further solidify the economy of our Nation's heartland. But most of all, Mr. Chairman, Americans will benefit.

We have heard several witnesses this morning mention the inconvenience that the component suffers in today's all-volunteer force. We have not discussed the inconveniences that the Guard and Reserve suffer. For 6 years, those Guardsmen and reservists would average more than 420 days of active duty time, having to leave their homes and jobs, their families, and having their lives disrupted. And this is not only during times of a national emergency, such as Operation Desert Shield and Desert Storm, but for local and State emergencies, also.

We have discussed the stability of the Guard and Reserve in the program. The average enlisted National Guardsman is 33 years old, has 8 years of service, has 12.4 years of education, and are stable in their community.

In regards to H.R. 1384, being a licensed realtor in the State of Ohio, and being familiar with ARM financing, we have no objections to this demonstration program and would be very interested to find out if this program will further benefit our membership. One thing we would like to see in this legislation is that the cap be lower than what the industry standard is.

Mr. Chairman, it is the subcommittee and the Congress to decide to provide this benefit to the Guard and Reserve. It should not be given to them just to shore up the guaranty program, but as a benefit of being part of the total force.

I wish to thank you again for allowing me to express the opinions of the Enlisted Association of the National Guard. We are very pleased to be recognized by your subcommittee for our efforts in working for the enlisted men and women of the Nation's oldest fighting force.

We will be happy to take any questions.

[The prepared statement of Sergeant Cline appears at p. 134.]

Mr. Staggers. Thank you, Mr. Cline.

Admiral Smith.

STATEMENT OF REAR ADM. LESTER ROBERT SMITH, USNR (RET), PRESIDENT, NAVAL RESERVE ASSOCATION

Admiral Smith. Mr. Chairman, it is a real pleasure to be here to present the views of the Naval Reserve Association on this legislation to extend the VA loan guaranty program to certain members of the Reserve components.

I will not speak to H.R. 1384. We do not have a position on adjustable rate mortgages. H.R. 939, though, we feel is a good piece of legislation, and I would like to address a couple of issues.

As to it being a veterans' readjustment program and not for reservists, let me give you two reservists that served in combat, where one of them under the existing guidelines could get a loan and the other could not. They both come from the same unit, down at NAS Oceana, VA, near Norfolk.

One is Commander Tom Stewart, the commanding officer of an A-6 augment unit, who operates his own business in Virginia Beach. He voluntarily went on training duty on February 4 over to the Persian Gulf, where he served on the carrier Theodore Roosevelt until March 8. During that time he flew combat missions in A-6 attack bombers with Attack Squadron 65. He flew 14 attack missions with over 30 hours. He has been recommended for the Air Medal. He has now been released back to his Reserve duty and his business again.

That man would not qualify. He had just over 30 days. He has been shot at. His airplane was hit. Does he not deserve that in spite of the fact he wasn't there for 90 days?

One of his squadron personnel, Aviation Ordnanceman 1st Class Walter Thompson, was recalled in December and reported to the carrier Midway in January. And after only 1 week aboard, he was placed in charge of the flight deck ordnance crew, which is quite a responsibility, with supervision for handling all of the bombs, missiles, and other ordnance on the flight deck, loading them on the airplanes. He is still on the Midway at this date, he's been there over 90 days, and he would qualify.

Just as a sidelight, the squadrons that both of these gentlemen came from, an augmentation unit, none of them were recalled as units. Now, unfortunately, for budgetary reasons, they have been deleted from the FY 1992 defense budget submission.

The reservists and Guardsmen are older, more stable personnel. Typically they have eight to 10 years more in age than those on active duty. They are more set in their ways and they generally have families. I think this type of stability validates the statement you made, Chairman Staggers, before the 101st Congress, that reservists are good credit risks, being, for the most part, mature, responsible and solvent citizen soldiers and sailors.

You know, an overwhelming majority of reservists in the Naval Reserve responded willingly to recall; 99.7 percent of the reservists called responded. Many of them had their lives seriously disrupted. I know physicians who had to close down their practice, send their patients to other doctors, and lay off their office staff. Some have suffered real economic hardships.

We are thanking them through additional reserve personnel benefits in the FY 1991 defense bill, the Soldiers and Sailors Relief Act Amendments, and the Desert Storm Supplemental Personnel Benefits Act, and we are also thanking them with parades and honor nights and things like this. But I believe that H.R. 939 would be tangible evidence of the appreciation of a grateful Nation for the sacrifice of these citizen soldiers, including the commander who was only over there for 30 days.

With the drawdown of the active military forces, the Reserve components must be relied upon to provide an adequate, cost-effective total force. Hence, incentives to recruit and retain reservists may become even more important, particularly in light of the personal sacrifices sometimes required of them, as with our recently recalled reservists.

We think that extending the VA home loan eligibility to reservists with 6 years of service is a powerful recruiting and retention tool and will enhance our total force defense posture. We also think it should, in fact, strengthen the VA Guaranty Loan Program as well.

Thank you, Mr. Chairman.

[The prepared statement of Admiral Smith appears at p. 139.]

Mr. STAGGERS. Thank you, Admiral Smith.

Let me ask a generic question of the whole panel, and let me start with you, General Weber. Actually, it's a two-part question.

You have all testified about your support for extending the home loan eligibility to the members you represent, but what is the interest of the individual members? Is there a groundswell out there that they're even aware of it?

The second part, do you really believe that extending this benefit will provide recruitment and retention, especially in light of the fact that Congress is faced with the prospect of cutting back our forces, where there will be less a problem of recuitment and retention because we're going to be going the other way?

General WEBER. Speaking to your second question first, sir, I think as we look at all of the entitlements and incentives that the Congress has provided, it would be very, very difficult to isolate any one issue and say that that, in itself, is significant. It's a combination of all of these that provides the incentives that we need to get the young men and women into the National Guard and to get them committed to hopefully a career in the Guard. So it is a part of that package.

To answer your first question, we have not undertaken any kind of a survey to determine the level of interest. But I would be certain—in fact, I know that there would be a goodly number of young men and women that would be encouraged to come into the Guard, to stay in the Guard, if they were, in fact, provided the opportunity that is included in 939.

Mr. **Staggers**. Mr. Rodenberg.

Colonel **Rodenberg**. Thank you.

Yes, per se, I would support everything that General Weber has said. I would only add that sometimes the perception of these benefits are almost important as the benefits themselves. Not everyone will take a VA loan, but the fact that Congress cares enough to make it available sends a strong statement.

You asked about the interest of our members. Our Association has shown a great deal of interest. I attached to our prepared statement a copy of a resolution that was passed at our recent national convention. I can say that personally I have received a number of calls from our people interested in the status of this legislation or the status of the VA loan program. So I think it is a real incentive.

Admiral **Smith**. I would second the comments of my two colleagues here, and add that I don't think that this, in itself, could make a significant difference in terms of recruiting and retention. But I do believe it is again an impression, a perception that the reservists and Guardspeople would have about the support that the Reserve and Guard has towards a total force policy. When they see things that the active duty people get that they're not eligible for, they believe it's a two-way street and not a one-way street. So the perception would be very positive and I think it would be helpful. As to how many would use it, I don't know. But I know that some would.

Mr. **Staggers**. Mr. Cline.

Sergeant **Cline**. I would have to echo the thoughts and words of my counterparts here.

One thing that we forget, Mr. Chairman, is that, as time goes by, our military force becomes more highly educated, our people become more highly educated, that will want to come into the military. You have to provide added incentives, and this will be an ongoing thing in the future.

Right now, we're looking at the average enlisted person, on the Guard side of the house, having 12.4 years of education. That's significant. As you climb into the officers' ranks, that climbs up to 16 years of education. So as time goes on, we have to provide more benefits to retain those kind of people.

Yes, our Association has, and as you are well aware, in the letters we have sent you, there has been a big increase on the enlisted side of the house for this kind of legislation for our people.

Mr. **Staggers**. I appreciate your comments and your testimony. I have no further questions, and no other members have questions. I appreciate you all being here. I look forward to working with you.

As to our next panel, we have already heard from Mr. White, so we will now hear from Mr. Muffley, Mr. Moore, and Mr. Shealy.

As the panel is coming forward, I would like to take this opportunity to introduce Leff Moore, who is from my home State of West Virginia. Though he doesn't live in my district, I have been very acquainted and very active with Mr. Moore over a long period of time.

I first came in contact with him when I was in the Attorney General's Office for Consumer Protection. He does an outstanding job for his association, but also he is very much involved in his community with the economy of West Virginia, making a positive impact. I appreciate Leff Moore being with us here today, a fellow West Virginia.

Mr. MOORE. Thank you. You're very kind.

Mr. STAGGERS. Unfortunately, your testimony wasn't first, so we will have to start with Mr. Muffley.

As you all may have heard, your written statements will be made a part of the record. There has already been asked unanimous consent and there was no objection to that. So all your testimony will be made part of the record. So if you want to summarize, however you want to proceed.

STATEMENT OF BOB MUFFLEY, REALTOR, GOODING, ID; APPEARING ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS

Mr. MUFFLEY. Thank you, Mr. Chairman. I will summarize.

Mr. Chairman, my name is Bob Muffley. I'm a realtor from Gooding, ID. I currently vice-chair the Real Estate Finance Committee of the National Association of Realtors. I am a veteran and served during the Vietnam conflict.

Our Association sincerely appreciates the opportunity to testify on pending issues of concern regarding the DVA's loan guaranty program. At the outset, however, we want to thank the chairman and members of the subcommittee for rejecting the proposals in the administration's fiscal year 1992 budget regarding the loan guaranty program. These proposals included making the current 1.875 funding fee permanent, imposing a 2.5 percent funding fee and a 10 percent downpayment on nonactive duty military personnel who use their entitlement more than once, and finally, the inclusion of the average loss on resales for the purpose of calculating VA's no-bid formula. The Association remains adamantly opposed to these proposals and appreciates your support in their rejection.

In your letter of invitation we were asked to comment on oversight of the loan guaranty program, legislation to expand the loan guaranty program to certain members of the Reserves, and legislation on the adjustable rate mortgage program.

Regarding oversight of the loan guaranty program, at our recent midyear meetings in Washington, D.C., DVA staff informed our members that in the last 6 months the Department's properties through acquisitions are down 6 percent. The properties that the DVA has on hand are down 4 percent. In addition, the majority of all foreclosed properties are sold through real estate brokers. The Association commends the DVA for their continued efforts with our Association to dispose of their properties.

Further, regarding origination, the Veterans Home Loan Restructuring Act of 1989 increased the entitlement amount for veterans from $36,000 to $46,000. The Association supports this increase and believes it will help veterans acquire homes in the more high-cost areas of the country.

The Association supports House Bill 939, introduced by the chairman and ranking member of the full committee and this subcommittee. House Bill 939 would expand the loan guaranty program to reservists who had served honorably for 6 years at a slightly higher fee structure than the veterans. The National Association of Realtors supports the chairman and ranking member of the subcommittee in their attempts to recognize the service and dedication of reservists through the extension of the loan guaranty benefits. Further, we will convey our support of this legislation to the Senate Veterans' Affairs Committee and urge the Senate to consider similar legislation this year.

The Association also supports House Bill 1384, introduced by Congressman Payne, to provide for a demonstration program by the Secretary of DVA with respect to the adjustable rate mortgage. Our Association believes an adjustable rate mortgage facilitates the different borrowing needs of the various veterans. We urge speedy passage of this legislation.

Although we realize there is no pending legislation on this issue, we did want to state our strong support for the repeal of the authority of the Secretary of the DVA to establish a maximum rate of interest which veteran borrowers must pay on their VA guaranteed loans. Establishment of a maximum rate mandates the number of points a seller must pay, thus making sellers unwilling to offer VA financing. This lack of a negotiated rate clearly does not benefit veterans. The Association has carefully monitored the FHA program which deregulated its interest rate in 1983. We believe the success of the FHA program would be shared by the DVA if negotiated rates were available.

Finally, we realize that House Bill 232 has already been approved by this subcommittee and passed by the full House of Representatives, but we did want to state our support for the provision in that legislation which extends the authorization for the lender appraisal processing program. However, we would go one step further and urge that the program be extended an additional 3 years so that the program can be adequately evaluated.

We respectfully urge that when this bill comes to conference, members of this subcommittee consider a 3-year extension of that program.

Mr. Chairman, my association applauds your efforts and the efforts of this subcommittee and once again would like to thank you for the opportunity to provide testimony on this issue. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Muffley appears at p. 142.]

Mr. STAGGERS. Thank you, Mr. Muffley.

Mr. Moore.

STATEMENT OF LEFF MOORE, EXECUTIVE DIRECTOR, WEST VIRGINIA MANUFACTURED HOUSING ASSOCIATION, APPEARING ON BEHALF OF THE MANUFACTURED HOUSING INSTITUTE AND THE NATIONAL MANUFACTURED HOUSING FEDERATION

Mr. **Moore**. Good morning, Mr. Chairman. Thank you for your introductory remarks. I am humbled by those kind comments.

For the record, my name is Leff Moore. I am the Executive Director of the West Virginia Manufactured Housing Association. I want to thank you for this opportunity to comment on the Department of Veterans Affairs loan guaranty program.

The manufactured housing industry has a particular interest in DVA's manufactured home loan guaranty program and the role it may serve in helping to provide shelter to American veterans. We feel that the program represents an opportunity to provide affordable housing without heavy Government subsidies, but the program is underutilized by veterans because of administrative procedures that need to be addressed by the DVA. It is my intent to offer suggestions in this testimony that will help make the program much more accessible to veterans without additional costs to American taxpayers.

My comments are offered on behalf of the members of the Manufactured Housing Institute and the National Manufactured Housing Federation.

The Manufactured Housing Institute is a national trade association representing manufactured home builders and related suppliers of goods and services to the industry and its consumers. MHI manufacturer members produce about two-thirds of the manufactured homes built in the United States.

The National Manufactured Housing Federation is a national trade association comprising 48 State and regional manufactured housing associations. These State and regional associations contain within their memberships over 8,000 retailers and 20,000 developers active in manufactured home sales, service and land development. Ninety percent of all new manufactured homes sold in the United States in 1990 were sold by Federation-affiliated retailers. Federation-affiliated developers own and operate over 1.5 million manufactured homesites across the Nation.

The West Virginia Manufactured Housing Association is affiliated with and is represented by these national associations.

Manufactured homes are delivered from the factory in one or more sections. They are completely assembled and require only minimal labor to make them ready for occupancy once delivered to a homesite. Manufactured homes are built to Federal standards prescribed by Congress in the National Manufactured Housing Construction and Safety Standards Act of 1974. These standards were developed and implemented by the Department of Housing and Urban Development in June of 1976.

The Department of Veterans Affairs was first authorized to guarantee loans on manufactured homes by the Veterans' Housing Act of 1970. This program has provided more than 112,000 veterans the opportunity to own their own home from its inception.

Manufactured home loans guaranteed by the Department of Veterans Affairs are eligible for pooling into Government National

Mortgage Association mortgage-backed securities. So the program also provides an important access to loan funds available through institutional investors and others who buy GNMA securities. Access to investors through secondary markets has become an increasingly important source of funds for housing finance in the 1980s. At this time GNMA is the only organized secondary market source for publicly-traded securities back by manufactured home personal property loans.

By comparison to the Department's loan guaranty program for site-built homes, the manufactured home loan program has never been a large volume program. However, volume over the last few years has slowed to a virtual trickle. We believe that this loss of volume has been caused by administrative log jams and bureaucratic apathy, not by a lack of interest on the part of veterans in using the program.

Illustrating the point in the decrease in volume of the program over the last several years, in 1985, 8,135 veterans were able to use the program to meet their housing needs; last year, only 391 veterans were aided by the program. This is a dramatic decrease, and we don't believe it is because veterans have lost interest in the program.

As the subcommittee knows, the Department of Veterans Affairs suggested last year that the DVA program created for personal property manufactured home loans be eliminated. Fortunately, that proposal found no support in this subcommittee or in Congress generally. However, because the Department of Veterans Affairs apparently feels that this program is of little or no value to the veteran, and is too small for them to commit resources to administer, they have effectively eliminated the program by throwing road blocks for lenders in its administration and failing to examine or implement changes in the program to make it work effectively for the benefit of more veterans.

Many of the changes that I'm suggesting in this testimony have been suggested before by us or other representatives of the manufactured housing industry, and I do not mean to imply that the Department staff has been unapproachable. They have met with our industry representatives and agreed with some of our suggestions. Our frustration, however, is that no changes have been made or even proposed, as far as we know. Instead, the manufactured home loan guaranty program has gradually deteriorated to the point that it is almost nonexistent. This is a shame and a disservice to the veterans who could use the program.

What we propose is not a wide open program that would involve additional Government spending or subsidies. In fact, what we propose is not a fundamental change from the DVA's existing program guidelines. The changes we propose are based on lenders' and retailers' views of why the program has become unattractive and difficult to use.

Probably the most significant change that the Department could make in reviving this program is to centralize its administration. Not only would this make the program easier for the manufactured housing industry, it would probably save the Department some administrative costs.

There are 40-plus field offices that process DVA-guaranteed loans, and many have their own interpretation of what the manufactured home loan program guidelines means. Hence, lenders who operate nationally or in large geographic areas find themselves having to offer a number of different DVA loan programs, depending on the interpretations of the field office with which they are dealing. One centralized processing state would guarantee consistent interpretation of program guidelines.

Centralized processing would allow the Department to have specifically trained personnel who would be experts in manufactured home financing. Volume in the program is low, even in the aggregate, and it is extremely low in all but a few field offices. Therefore, most field office personnel do not process many manufactured home loans and, therefore, do not necessarily fully understand them.

The cost to the DVA to keep a specially trained person at all field offices to process a few loans is not cost beneficial, so centralized processing would allow the DVA to have fewer staff who are trained in processing manufactured home loans, but those staff members would be better trained.

In addition to providing more efficient staff at less cost for manufactured home loan processing, centralized processing would assure consistent interpretation and application of program guidelines. This would go a long way towards making the program more attractive for lenders and, therefore, more available to veterans.

Illustrative of the point we want to make here is a problem that exists today with appraisals on manufactured homes where the veteran borrower has defaulted and the lender has had to repossess the home. Program guidelines require that the repossessed home be appraised prior to its sale and that the lender's loss be computed using the higher of the appraised value or the sales price. If the appraisal is higher than the price for which the home can be sold, then the lender's loss is increased.

Lenders tell us that, increasingly, appraisals are higher than the realistic resale price the lender might expect to get for the home. The lender must therefore suffer long delays in appealing the appraisal or suffer the increased loss on the defaulted loan. Knowing this to be the case, lenders have begun to avoid the program in order to avoid these additional losses. With centralized processing, arbitration of these kinds of problems would be expedited.

More cooperation is needed between DVA and DOD. When an active duty veteran is transferred, he or she generally receives little advance notice. This increases the incidence of loan defaults for manufactured home because many of these veterans have inadequate time to resell their home, cannot afford to pay living expenses at their new duty station and maintain the house payments. Therefore, they default on the loan. We do not believe it would be fair for active duty veterans to be barred, per se, from using the program. However, we do believe that some cooperation from the Department of Defense with the Department of Veterans Affairs could help this situation.

First, base housing officials should notify the transferring veteran borrower that he or she must clear their debt obligation on the home prior to transferring, either by selling the home or making arrangements to continue making the payments. The lender holding the veteran borrower's note should be notified that their debtor is transferring so that they can get in touch with him or her and counsel them on alternatives to handle the situation. In areas where off-base affordable housing for enlisted personnel is scarce, which is probably at most installations, base housing officers could be of great benefit to veteran borrowers and lenders by helping to put together personnel transferring in with housing needs with personnel transferring out with homes to sell. Perhaps this is already being done to some extent, but more emphasis needs to be placed on personnel in lower priced housing where civilian demand may be lacking.

Finally, we applaud the subcommittee Chairman and his colleagues for introducing H.R. 939, legislation to expand the Department's home loan guaranty programs to members of the Reserve and National Guard. The recent war in the Middle East reminded all of us of the vital role our reservists play in protecting America's freedom. These men and women richly deserve the benefits that this program may bestow upon them.

Mr. Chairman, your legislation will not only have a great impact nationally, but it will be particularly useful to West Virginia, a large percentage of whom regularly choose to serve their country in the Reserve or National Guard.

The manufactured housing industry believes that the Department's home loan guaranty program for manufactured housing can be an effective way to provide affordable housing to American veterans. However, fragmented field office administration and lack of cooperation or understanding of the program has frustrated lenders and discouraged them from offering the program. We believe centralized processing, done by specially trained personnel who understand manufactured home financing, would go a long way to reviving this program. To do less would be a shame and a disservice to the American veteran.

Thank you.

[The prepared statement of Mr. Moore appears at p. 146.]

Mr. STAGGERS. Thank you, Mr. Moore.

Mr. Shealy.

STATEMENT OF THOMAS T. SHEALY, CMB, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SUNTRUST MORTGAGE, INC.; APPEARING ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. SHEALY. Mr. Chairman and members of the subcommittee, I am Tom Shealy, President and Chief Executive Officer of Suntrust Mortgage in Atlanta, GA. I am pleased to have this opportunity to testify on behalf of the Mortgage Bankers Association of America.

As you may know, mortgage bankers originate more than 75 percent of the loans under the VA Home Loan Guaranty Program. Therefore, we are most anxious that the program operate as efficiently as possible to the benefit of the veteran borrower, as well as for the Government and our industry.

First let me mention that we believe the subcommittee and the Congress did the right thing in not adopting three fiscal year 1992 administration budget proposals that dealt with the home guaranty program. These involved the no-bid formula, treatment of VA mortgage in GNMA mortgage-backed security pools, and changes in the fee and downpayment structure for home mortgages. The written testimony we have provided goes into more detail on these. We think they were counterproductive and we certainly appreciate the action that you have taken.

I will now address several interests and concerns that we have with the operation of the present loan guaranty program.

We are pleased that the House has extended the authorization of the Lender Appraisal Processing Program, commonly referred to as LAPP. We urge prompt congressional approval of this authorization and, equally important, expeditious implementation by the VA. Changes in industry appraisal practices, State appraisal reforms now underway, and appraisal requirement provisions mandated by FIRREA have rendered current VA appraisal requirements complicated, expensive and unnecessary. The selection of appraisers and the appraisal review procedure are the elements that we think should be revisited.

I would like to call to your attention the proposed VA regulatory changes with respect to the conveyance of a property in foreclosure. These can only operate unfairly for the veteran occupant and create unnecessary costs for the lender. Presently, when a lender forecloses and the VA accepts the property, custody of that property is transferred to the VA immediately, regardless of whether the veteran still occupies the property or not. The new proposal would require eviction of the veteran by the lender prior to conveyance to the VA. We believe this is an unfair proposal that can only work to the veteran's disadvantage by precluding possible workout arrangements.

We strongly urge the Department of Veterans Affairs not to implement this proposal.

Though not a subject of this hearing, we respectfully request that the hearings on the effect of the application of the 6 percent interest cap under the Soldiers' and Sailors' Civil Relief Act be held expeditiously. The economic environment today is quite different from that in 1940 and this legislation should be updated.

We feel that an unfair burden is being imposed on the lenders by the refusal of GNMA, as opposed to FNMA and Freddie Mac, to bear a portion of the interest losses involved in this issue.

Adjustable rate mortgages, both conventional and FHA, are now a nationally-accepted home purchase instrument. They are no longer untested or untried. We believe the time has come for the VA to provide this alternative choice to veterans.

MBA believes that the VA ARMs should be authorized in a manner that would allow the Department of Veterans Affairs Secretary to conform VA ARM interest rate adjustments to the FHA ARM program. The Secretary should be authorized to guarantee loans with adjustment caps acceptable in the marketplace. Because FHA and VA mortgages can be placed in the same GNMA pool when they meet GNMA's pooling requirements, standardization of both VA and FHA ARMs would facilitate greater volume and liquidity in the secondary market.

You have in the written testimony the report of a special MBA-VA task force and a current policy position of the Mortgage Bankers of America. We believe that ultimately the VA Loan Guaranty Program should be fully insured, one that is actuarially sound, and we would welcome an opportunity to work with you in the future toward this goal.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions that you might have.

[The prepared statement of Mr. Shealy appears at p. 75.]

Mr. STAGGERS. Thank you, Mr. Shealy.

Mr. Muffley, you mentioned your support for the ARMs, and you may have heard some of the comments from some of the veterans' groups about the potential dangers. I think all of us are aware, by reading the newspapers, about bankers not adjusting those rates properly.

Can you give us some recommendations on how the VA should monitor lenders in this regard?

Mr. MUFFLEY. Mr. Chairman, I did hear some of their comments. I think a lot of it has to do with some misunderstanding as to the use of the instrument itself. The instrument can be very effective, given certain market conditions. When interest rates are high, it can be about the only tool that some people can use to get into a home. As the interest rates go down, it is less likely that people will use the ARM process. It's just another tool that can be used to get the veteran into a home.

The VA could monitor the program through the gathering of statistics to see how the program is operating, much as FHA has done. I concur with the MBA, that the FHA program seems to have been working very well. I would assume they would want to pattern their program after the FHA.

Mr. STAGGERS. Do either of the other gentlemen want to comment on how we could monitor from the VA?

Mr. SHEALY. On the mortgage bankers side, obviously there is a little more care that has to be exercised in the setting up of this particular loan servicing. Most mortgage bankers have a rather complete and thorough internal audit system that makes sure that these things are put on the books correctly. So I don't know of any particular care other than a very strong emphasis put on the lenders to make sure this program is administered.

We, too, have certainly read these articles. We have not found these sort of problems in our operation and really don't know what some of them are, other than some minor incorrect adjustments.

Mr. STAGGERS. Mr. Moore, any comment?

Mr. MOORE. On behalf of veterans and the purchasers of housing, I would encourage the Congress to include, through regulation or through legislation, the protective elements of disclosure that veteran consumers have a right to expect when they purchase an adjustable rate mortgage. There are certain disclosure requirements that have to be made under other programs, through FHA and others, and those disclosures should be made, just in order to make sure that the veteran who participates in the program fully understands the adjustable rate features and the benefits it offers.

Mr. **Staggers**. Mr. Muffley, in your opinion, is there any difference between the marketing of VA foreclosures and other Government or non-Government foreclosures?

Mr. **Muffley**. Yes. The VA has used our association, and real estate brokers across the Nation, I think very effectively. They have spent a lot of time in developing the best marketing programs in the various regions of the country. I think the VA has done a good job of recognizing the regional differences within our Nation.

I believe FHA has also done a pretty good job in this area, although it's a larger organization with more bureaucracy. To compare that possibly with the RTC, I think it would be comparing apples and oranges at this point.

Mr. **Staggers**. Mr. Muffley, you stated that you support repeal of the authority of the Department of Veterans Affairs to establish a maximum rate of interest, which you state mandates the number of points a seller must pay. Couldn't this result in the veteran paying more points? Why would this be a benefit to the veteran?

Mr. **Muffley**. I don't believe the veteran would end up paying more points. I think if it were patterned after the FHA program, we would have a win-win situation for both the buyers and the sellers.

At this point, at least in my market situation, there are many, many sellers who are hesitant to sell their home, knowing it's going to go to a veteran buyer, because of the points involved in the sale and the cost to the seller. With a negotiated interest rate, such as FHA's, there could be no points involved, depending on the interest rate that is chosen by the borrower.

Mr. **Staggers**. Once again, what would be the benefit to the veteran?

Mr. **Muffley**. The benefit to the veteran would be to have more of a market out there for homes. Right now, there are a lot of sellers with homes that veterans would like to buy that are not willing to sell to a veteran because of the cost of the loan. And there again, that fluctuates, given the market situations and what the interest rates are at the time.

Mr. **Staggers**. Mr. Moore, I don't think the VA has administrative handbooks for the manufactured home loan guaranty program. Are you aware of whether they do?

Mr. **Moore**. I'm not aware if they do have. I know there is a real disparity among the different and various field offices as to how they handle that program nationally. I can only assume, by the fact there is so much of a different interpretation of those regulations, that there is no handbook.

Mr. **Staggers**. You mentioned in your testimony about the centralization in administering the manufactured home loan guaranty program. You mentioned the possibility of savings, which is worthwhile. But you also mentioned once again the different interpretation by the field offices.

I don't expect you have this information off the top of your head, but can you supply us with examples of the inconsistencies of interpretations?

Mr. **Moore**. Yes, most definitely. We would be happy to do that.

Mr. **Staggers**. I would appreciate it.

Also, if, in fact, we would go that course in West Virginia, would you have a recommendation as to having a centralized office in Martinsburg or Hunington?

Mr. **Moore**. Of course, Mr. Chairman, I think Martinsburg would be the appropriate location.

[Laughter.]

Mr. **Staggers**. I appreciate your answer.

Mr. Shealy, the VA states that no-bids are down about 8 percent. Would you agree with that?

Mr. **Shealy**. Yes, I would. I don't know the exact percent, but I think they are down right now.

Mr. **Staggers**. What share does the VA have of the overall mortgage market, do you know?

Mr. **Shealy**. Well, right now it's about 5 to 6 percent. Obviously, the VA population is declining as the eligibility of the veterans declines. But it is down to about 5 or 6 percent of the total financing.

Mr. **Staggers**. I was interested in the Soldiers' and Sailors' Relief Act that you mentioned. You stated it is unfair for private lenders to provide relief and that the Congress should consider correcting inequities that lenders are presently experiencing.

What kind of solution are you recommending?

Mr. **Shealy**. Well, one recommendation is—I think when that act was passed in 1940, it had a 6 percent cap. I think the interest rate of 6 percent in 1940 was a competitive rate. In today's environment and economic conditions, that's not the case. So I think the Soldiers, and Sailors' Relief Act, I think they're certainly entitled to consideration, but I'm not so sure that the interest should be reduced to that level.

I say this, of course, for those secondary market agencies that have participated in that cost, such as FNMA and Freddie Mac. I just think that's the aspect that should be looked at. And not necessarily a repeal of that legislation, but an update.

Mr. **Staggers**. I appreciate that.

If the panel would indulge me, I know that minority counsel had the possibility of some questions for their members. You can go ahead and proceed.

Ms. **Coggin**. Thank you, Mr. Chairman.

Mr. Shealy, you recommended in your testimony that the VA home loan program should be converted to an actuarially sound full insurance program. Would you please elaborate on how a full insurance program differs from the one now in place, and how would you change the current program?

Mr. **Shealy**. Well, I'm not so sure that we have all the details. But one of the problems that has concerned us is the no-bid problem. Obviously, I think this was an attempt on the part of the VA to pass some of the losses on to the lenders and not for the Government to have to sustain all those losses. We feel that maybe that's a little unfair for the lenders to have to take that and that maybe some of the beneficiaries of the program should bear a part of that. So we really don't have an exact formula, but we would like to sit down and see if we could make it more actuarially sound.

You know, it has been a burden on the taxpayers. We have had to go back for additional funding, and yet it has certainly been a burden on the lenders. I just think it is time that that should be looked at and maybe considered.

Mr. STAGGERS. I have no further questions. I thank the panel for your testimony and your answers to questions. I look forward to working with you all, also.

At this time the hearing will come to an end.

[Whereupon, at 11:55 am., the subcommittee was adjourned.]

APPENDIX

102D CONGRESS
1ST SESSION

H. R. 939

To provide eligibility to members of the Selected Reserve for the veterans home loan program.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 6, 1991

Mr. STAGGERS (for himself, Mr. MONTGOMERY, Mr. STUMP, and Mr. BURTON of Indiana) introduced the following bill; which was referred to the Committee on Veterans' Affairs

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A BILL

To provide eligibility to members of the Selected Reserve for the veterans home loan program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. ELIGIBILITY OF SELECTED RESERVE.

(a) SELECTED RESERVE.—Chapter 37 of title 38, United States Code, is amended—

(1) in section 1801(b), by adding at the end the following:

"(5)(A) The term 'veteran' also includes an individual who is not otherwise eligible for the benefits of this chapter and who has completed a total of service of at least 6 years in the Selected Reserve and, following the completion of such service, was discharged from service with an honorable discharge, was placed on the retired list, was transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service in the Selected Reserve characterized by the Secretary concerned as honorable service, or continues serving in the Selected Reserve.

"(B) The term 'Selected Reserve' means the Selected Reserve of the Ready Reserve of any of the reserve components (including the Army National Guard of the United States and the Air National Guard of the United States) of the Armed Forces, as required to be maintained under section 268(b) of title 10, United States Code."; and

(2) in section 1802(a)(2), by adding at the end the following:

"(D) Each veteran described in section 1801(b)(5) of this title".

(b) FEES.— (1) Section 1829(a)(2) of such title is amended—

(A) by striking out "and" at the end of subparagraph (B);

(B) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof "; and"; and

(C) by adding after subparagraph (C) the following new subparagraph:

"(D) in the case of a loan made to, or guaranteed or insured on behalf of, a veteran described in section 1801(b)(5) of this title under this chapter, the amount of such fee shall be—

"(i) two percent of the total loan amount;

"(ii) in the case of a loan for any purpose specified in section 1812 of this title, one percent of such amount; or

"(iii) in the case of a loan for a purchase (other than a purchase referred to in section 1812 of this title) or for construction with respect to which the veteran has made a downpayment of 5 percent or more of the total purchase price or construction cost—

"(I) 1.50 percent of the total loan amount if such downpayment is less than 10 percent of such price or cost; or

"(II) 1.25 percent of the total loan amount if such downpayment is 10 percent or more of such price or cost.".

(2) Subparagraphs (A) and (B) of section 1825(c)(2) of such title are amended by inserting "(other than loans described in section 1829(a)(2)(D) of this title)" after "for each loan".

102D CONGRESS
1ST SESSION

H. R. 1384

To provide for a demonstration program by the Secretary of Veterans Affairs with respect to adjustable rate mortgages.

IN THE HOUSE OF REPRESENTATIVES

MARCH 12, 1991

Mr. PAYNE of Virginia introduced the following bill; which was referred to the Committee on Veterans' Affairs

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A BILL

To provide for a demonstration program by the Secretary of Veterans Affairs with respect to adjustable rate mortgages.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. DEMONSTRATION PROGRAM.

(a) IN GENERAL.—The Secretary of Veterans Affairs shall carry out a demonstration project under this section during fiscal years 1992 and 1993, at not fewer than two but not more than 10 regional offices, for the purpose of guaranteeing loans in a manner similar to the manner in which the Secretary of Housing and Urban Development insures adjustable rate mortgages under section 251 of the National Housing Act.

(b) REPORT.—The Secretary shall transmit a report to the Congress no later than December 31, 1993, containing a description of the results of the implementation of the project carried out under this section and shall continue to make annual reports to the Congress with respect to the default rate and other information concerning the loans guaranteed under this section.

MAY 2, 1990
SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
HEARING ON H.R. 939 & H.R. 1384
OPENING REMARKS, HONORABLE DAN BURTON

GOOD MORNING, MR. CHAIRMAN. WE MEET TODAY TO CONSIDER TWO BILLS OF GREAT INTEREST TO OUR NATION'S VETERANS. H.R. 939 IS A BILL TO EXPAND THE ENTITLEMENT TO THE DEPARTMENT OF VETERANS AFFAIRS' (DVA) HOME LOAN GUARANTY PROGRAM TO CERTAIN MEMBERS OF THE RESERVES AND NATIONAL GUARD. AS WE ALL KNOW, THE RESERVES ARE PLAYING AN EVER INCREASING ROLE IN OUR NATION'S DEFENSE. THIS POINT WAS PROVEN OVER AND OVER AGAIN DURING "OPERATION DESERT STORM." WITH U.S. ACTIVE DUTY FORCES DECLINING AROUND THE WORLD, THE READINESS OF THE RESERVES AND THE NATIONAL GUARD MUST NOT BE COMPROMISED.

IT IS IMPORTANT TO NOTE THAT BY EXPANDING THE HOME LOAN PROGRAM TO THE

RESERVES AND NATIONAL GUARD, H.R. 939 WILL SAVE THE DEPARTMENT OF VETERANS AFFAIRS (DVA) APPROXIMATELY $36 MILLION DOLLARS OVER THE NEXT FOUR YEARS. LAST MONTH, THIS CONGRESS EXTENDED ELIGIBILITY FOR THE HOME LOAN PROGRAM TO VETERANS WITH AT LEAST 90 DAYS OF ACTIVE DUTY SERVICE. WE PROVIDED THIS NEW BENEFIT AS PART OF THE PERSIAN GULF SUPPLEMENTAL AUTHORIZATION AND PERSONNEL BENEFITS ACT OF 1991. I BELIEVE THAT EXPANDING THE HOME LOAN PROGRAM TO RESERVISTS WHO HAVE SERVED AT LEAST SIX YEARS IS BOTH AN IMPORTANT AND FINANCIALLY PRUDENT STEP THAT THIS COMMITTEE CAN TAKE TO DEMONSTRATE OUR APPRECIATION FOR THESE FORCES.

THE SECOND BILL THIS SUBCOMMITTEE WILL LOOK AT IS H.R. 1384, A BILL TO

PROVIDE FOR A DEMONSTRATION PROGRAM IN FISCAL YEARS 1992 AND 1993 WITH RESPECT TO ADJUSTABLE RATE MORTGAGES (ARM'S). ADJUSTABLE RATE MORTGAGES HAVE BEEN EXAMINED BY THIS SUBCOMMITTEE BEFORE. OFTEN WE HAVE HEARD CONFLICTING TESTIMONY ABOUT THE POTENTIAL VALUE OF THIS TYPE OF FINANCING. SINCE ITS INCEPTION, THE HOME LOAN PROGRAM HAS SERVED ALMOST 13 MILLION VETERANS AND THEIR FAMILIES. IN LIGHT OF CONTINUING EFFORTS TO CONTROL THE FEDERAL BUDGET DEFICIT, IT IS CRITICAL THAT THIS SUBCOMMITTEE CONTINUE TO LOOK FOR NEW WAYS TO IMPROVE THE PROGRAM. UNDER THESE CIRCUMSTANCES, I AM LOOKING FORWARD TO HEARING MORE TESTIMONY ABOUT ADJUSTABLE RATE MORTGAGES HERE TODAY.

MR. CHAIRMAN, THANK YOU FOR YOUR LEADERSHIP ON THESE ISSUES. I LOOK FORWARD TO WORKING WITH YOU IN OUR EFFORT TOWARD INSURING THAT ALL VETERANS CAN SECURE HOUSING FOR THEMSELVES AND THEIR FAMILIES. I AM CONFIDENT THAT THIS COMMITTEE IS MOVING IN THE RIGHT DIRECTION.

THE HONORABLE LEWIS F. PAYNE, JR.
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
May 2, 1991

MR. CHAIRMAN, it is a pleasure to be testifying before this Subcommittee today on my bill, HR 1384. HR 1384 will improve our veterans' ability to purchase a home by implementing a demonstration program to allow veterans to use Adjustable Rate Mortgages (ARM) on home loans through the Department of Veterans Affairs. I appreciate your support for this program and appreciate Chairman Montgomery's cosponsorship of this bill.

HR 1384 is identical to legislation passed by this Subcommittee, as well as the House, last year. The demonstration program which would be established by passage of this bill will be fashioned after the HUD program. Since 1984, HUD has offered an ARM program which is considered very reasonable for borrowers in that it only allows 1 percent adjustment per year, with a 5 percent cap over the life of the mortgage. HR 1384 will allow the Department of Veterans Affairs to implement an ARM program in fiscal years 1992 and 1993 in at least two of their regional offices and not more than ten regional offices. This is the same program that was passed in HR 5002 last July.

The ARM is the mortgage of choice among homebuyers in today's market. However, the DVA is the only major mortgage market participant without an ARM. Allowing the DVA to provide ARMs for qualified veterans will make the DVA housing program more fully responsive to market developments and more able to help our veterans.

A DVA administered ARM will allow veterans to purchase homes with lower monthly mortgage payments. Although I am on temporary leave from serving on this Committee in order to serve on the Budget Committee, I am still very aware of the desire of our veterans to obtain the great American dream of being a home-owner. This bill will provide veterans even greater opportunity to fulfill this dream.

According to CBO estimates of the bill passed in 1990, this demonstration program will not result in significant increases in program costs.

Thank you for allowing me to present my views on this bill, and I welcome the opportunity of working with you, Mr. Chairman, as well as other members of this Subcommittee to help our veterans become home-owners. I would be happy to answer any questions you may have on this bill.

STATEMENT OF D'WAYNE GRAY

CHIEF BENEFITS DIRECTOR

DEPARTMENT OF VETERANS AFFAIRS

FOR PRESENTATION BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

HOUSE OF REPRESENTATIVES

MAY 2, 1991

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the operation of the Department of Veterans Affairs Loan Guaranty Program. In your invitation letter, you specifically requested comment on originations, loan servicing and property management, staffing levels, timeliness and loan asset sales. You also invited testimony on H.R. 939, legislation to expand the Loan Guaranty Program to certain members of the National Guard and Reserves, and H.R. 1384, legislation to provide for a demonstration program with respect to adjustable rate mortgages.

In addition, Mr. Chairman, I will discuss several proposed improvements to the Loan Guaranty program that were included in our Fiscal Year 1992 budget request, which we believe will strengthen the financial integrity of the program.

LOAN ORIGINATIONS

Over the last several years, we have made a number of improvements in our loan underwriting standards. In the past year we established a 4 percent limit on the value of builder/seller concessions. We also established specific underwriting and documentation requirements for active duty military personnel with less than 12 months remaining on their current term of service, and developed a Counseling Checklist to be used in counseling all loan applicants on active duty. The results of the improvements made in the underwriting standards can best be seen in the sharp decline in short-term defaults. The proportion of loans terminated in the first 2 years declined from 42% in 1981, to 6.3% in 1989, and to 5.9% in 1990. First year defaults have dropped from 5.6% in 1981, to 0.43% in 1989, and to 0.33% in 1990.

On March 8, 1991, VA published the standards to be used by lenders in underwriting VA guaranteed home loans and obtaining credit information in regulatory form in the Federal Register. The regulations are similar to the standards published previously as an administrative release, but they require a more careful review and post-audit by field stations of loans that fall into the riskier categories. The new regulations also provide penalties for false lender certifications of compliance with VA's credit underwriting standards. These penalties can be for up to two times the amount of VA's loss on the loan or $10,000, whichever is greater.

We will continue to look for ways to improve our mortgage credit underwriting standards.

LOAN SERVICING

Default/foreclosure statistics

Mr. Chairman, I am pleased to report that defaults and foreclosures overall have declined in recent years. While this decline is due largely to improvements in the housing market, it also reflects improved VA servicing efforts. FY 1990 foreclosures totaled 38,987, down 18 percent from the 47,712 foreclosures in FY 1988. Defaults reported in FY 1990 totaled 163,959, down

5 percent from the 172,503 reported in FY 1988. Defaults pending declined 14 percent from the end of FY 1988 (133,600) to the end of FY 1990 (115,522). Similarly, claim payments on GI home loans declined from 48,377 ($697 million) in FY 1988 to 40,158 ($598 million) in FY 1990, a drop of 17 percent in numbers and 14 percent in dollars.

For the first half of FY 1991, the downward trend continues. Defaults reported during this period (86,978) were down 8 percent from those reported in the same period in FY 1988 (94,541), and were down 2 percent from those reported in the same period in FY 1990 (88,994). Foreclosures for the first half of FY 1991 (17,266) were down 32 percent from those reported in the same period in FY 1988 (25,355), and were down 17 percent from those reported in the same period in FY 1990 (20,893).

Supplemental Servicing

In the first half of FY 1991, 86,978 defaults were reported to VA. During the same period, 55,351 cures were reported and 17,266 loans were terminated. Our field stations reported 97,224 personal supplemental servicing contacts with borrowers and identified 2,877 defaults which were cured specifically as a result of direct VA intervention. We estimate that VA avoided claim payments and property acquisition losses of over $50 million as a result of these 2,877 successful interventions in the first half of FY 1991 alone.

Alternatives to Foreclosure

VA personnel at our regional offices continue to emphasize alternatives to foreclosure in their servicing contacts with veterans who are delinquent on their VA-guaranteed loans. We provide counseling to the veteran and in appropriate cases intercede directly with loan holders to obtain reasonable repayment plans on behalf of veterans. If a loan holder cannot extend additional forbearance and we believe the case merits additional consideration, we will buy the loan from the holder and then the veteran will make future payments to VA. If the veteran's situation reveals that he has little, if any, chance of maintaining the loan payments, our representatives encourage a private sale of the home to avoid foreclosure, and, if necessary, VA will consider paying a claim for the difference between the sale price and the loan indebtedness. We also review the possibility of approving the acceptance of a deed in lieu of foreclosure. Each of these alternatives is usually less costly than foreclosure.

In response to concerns with reducing defaults, foreclosures, and property acquisitions, we intensified our servicing efforts nationwide. We estimate that our efforts to emphasize alternatives to foreclosure wherever feasible may have reduced program costs by as much as $100 million in FY 1990. During Fiscal Year 1991 our regional offices have processed 218 compromise claims, refunded 273 loans, and accepted 871 deeds in lieu of foreclosure. So far this year, estimated savings, through March 31, 1991, on the successful interventions exceed $50 million.

Net Value Miscalculation in No-bid Cases

Mr. Chairman, I would next like to bring you up to date on our progress in resolving the problem of the recently discovered mistake in the "net value" formula. The no-bid cases, when VA does not offer to purchase the security property from the holder after foreclosure of the loan, represent increased losses for holders and have been a sore point with the mortgage industry for several years. In recent years, however, the number and percent of no-bid cases has dropped substantially. For example, no-bids were 25.7 percent of all foreclosures in the second quarter of FY 1988. Since then it has dropped steadily to 8.2 percent in the first quarter of FY 1991.

A no-bid occurs when the net value of the property securing a loan is so low that VA cannot reduce its claim liability by requiring the holder to credit the loan account with the net value (and thereby extending the holder the option of conveying the property to VA in return for payment of the net value). VA is required by law to establish net value by reducing the fair market value of the property securing the loan by the estimated expenses if VA acquires and disposes of the property. At the end of 1990 VA discovered a technical inaccuracy in the methods previously used to calculate net values, and a project is presently underway to compensate lenders for losses they may have suffered as a result of the inaccuracy, and to reduce debts established against veterans because of the error.

During the period affected, FY 1985 through FY 1990, there were over 40,000 no-bid cases. In most of these the net value miscalculation by VA made no difference on the no-bid decision. VA is reviewing slightly over 10,000 cases to ensure that all cases which may have been affected are examined. It is expected that perhaps only 25-50 percent of those may have been affected by the net value miscalculation to the extent that they should not have been no-bids.

The bulk of the compensation will not be paid in FY 1991, and no supplemental appropriation should be necessary. For future years, it is expected that additional funds from improved program operations should cover the estimated expenses. One of these planned improvements is the conversion of a higher percentage of non-performing loans in VA's portfolio into current accounts. The emphasis on better control of the portfolio delinquency should also result in an increased number of terminations of insoluble loans, with subsequent property acquisitions by VA and resales for cash or with financing through vendee loans which may be sold and converted to cash.

PROPERTY MANAGEMENT

Property Sales

Mr. Chairman, during Fiscal Year 1989, VA achieved 42,796 acquired property sales, the highest in the history of the Loan Guaranty program. However, loss per property also increased during the same period, as more emphasis was placed on speed of disposition. I am pleased to report that during Fiscal Year 1990, the average loss per property (based on appraised value at time of foreclosure) decreased from $12,824 to $9,325. At the same time, we were still able to sell more properties than we acquired, with sales totaling some 36,304 properties. During the first 6 months of Fiscal Year 1991, property sales have continued at substantially the same pace as during the first half of the last fiscal year. The inventory of properties on hand has increased slightly due to worsening market conditions in some states that were not previously affected by adverse economic situations. We expect that the traditionally active sales months of spring and summer, however, will result in a reduction for the fiscal year.

Cash Sales

Since the October 1990 sunset of the statutory requirements that certain percentages of acquired properties be sold for cash, VA has continued to experience cash sales within the previously mandated range, with 38.6 percent of the VA-acquired properties sold without VA financing.

7.

Property Management Initiatives

We continue to look for ways to improve the marketing of VA-acquired properties. Recent innovations include:

- Expanded use of exclusive arrangements with real estate brokers for property management and sales, including variable compensation depending on speed of disposition.
- Public bid openings and announcements which provide prospective purchasers with timely notice regarding their purchase offers. This method is currently being used in Texas, Colorado, Oklahoma, Georgia, New York, California, and Utah.
- 42 stations operate computer-based bulletin boards to provide program participants with updated information regarding sales listings and purchase offers.
- We are testing the use of vendee financing at below-market interest rates in certain areas where low-rate loans are being offered by competing REO sellers.

Homeless Program

Although the authority under Public Law 100-198, Section 9, has expired, we are continuing to administer the Homeless Program with the understanding that it will likely be extended in the near future. Since the program was implemented in March 1988, four properties have been sold to nonprofit organizations and one property has been transferred to VHS&RA under the Compensated Work Therapy/Therapeutic Residence program.

8.

SALE OF LOAN ASSETS

Since the successful completion of the partial recourse sale of January 1990, VA has completed three additional securitized sales of vendee loans, a $348.68 million sale in May 1990, a $300.75 million sale in August 1990 and a $390.76 million sale in January 1991. These sales featured noteworthy enhancements which increased the cash proceeds realized by VA:

- o Full Recourse VA Guaranty. Credit support for the three sales was provided in the form of a VA guaranty covering all losses on the loans sold. The guaranties included prompt reimbursement of advances made by the servicer or the trustee for shortfalls in scheduled principal and interest collections on the loans, payment of all losses incurred in connection with the resale of properties acquired due to the foreclosure of defaulted loans, and assurance that additional interest at the pass-through rate on the securities would be paid to investors in the event a required monthly payment distribution was not made timely.

  The inclusion of these guaranties allowed VA to further increase both the amount and pricing of triple-A rated securities that could be issued. As a result, the combined net up-front proceeds to VA from the three sales were approximately $132 million greater than the returns we could have expected through use of the prior partial recourse structure.

- o Funded Loss Reserve. Loss reserves were created to cover VA guaranty obligations on each of the full recourse sales by using appropriately sized portions of the monthly cash distributions payable on subordinate certificates retained by VA in connection with non-recourse sales completed in Fiscal Years 1988 and 1989.

Use of this credit support mechanism eliminated the need for creation of a subordinate class of securities which would be retained by VA and proportionately increased the amount of triple-A rated securities which could be sold. It also helped maintain two significant credit management benefits derived through VA's previous securitized sales; i.e., avoidance of the need to process future guaranty claim disbursements and elimination of funding

requirements for repurchases of defaulted loans that would have been necessary on a whole loan sale, pursuant to the recourse provisions of 38 CFR 36.4600.

- No Additional Guaranty Risk. The increased proceeds were obtained without exposing VA to increased risk of loss. For a fully guaranteed sale to result in greater claim payments than those potentially required under the limited guaranty structure of the January 1990 sale, foreclosure losses would have to exceed 48 percent of the principal balance of the loans sold. Such an occurrence is highly improbable. For that situation to arise, more than 80 percent of the sold loans would have to be foreclosed with an average loss equal to 60 percent of the loan balances. Based on VA's historical experience with sold vendee loans, a foreclosure rate of approximately 10 percent is anticipated with an average foreclosure loss of 40 percent.

VA's next vendee loan sale, a sale of approximately $300 million, is scheduled to close on May 23, 1991. This sale will also be structured with a full recourse guaranty.

TRAINING

Loan Guaranty Service instituted a centralized technician training program in FY 1989. During that year, week-long courses were conducted for 217 technicians: 94 appraisers, 68 loan service representatives, and 55 specially adapted housing agents. During FY 1990, training was provided to 264 technicians: 152 property management specialists, and 112 loan processing technicians. The emphasis on this first round of training was for newer employees; i.e. those who had been in their jobs less than 5 years. In the first 2 years of the centralized training program more than 25 percent of the Loan Guaranty field technical staff have received training.

In order to provide this training as economically as possible, Loan Guaranty conducted the courses primarily at VA-owned facilities with lodging and meal facilities to avoid full per diem expenditures. Training costs to VBA, including curriculum development costs, were $128,180 in FY 1989 and $125,712 in FY 1990. This averages only $528 per student trained. We estimate that these costs would have been nearly double if we had used commercial training facilities.

Loan Guaranty Service hopes to continue this centralized training effort in FY 1991, with focus on Loan Service and Claims technicians.

STAFFING AND TIMELINESS

As of the end of March the Loan Guaranty program had a total staffing level of 2039 FTEE. This represents 126 FTEE less for FY 1991 than estimated in the President's FY 1992 Budget. However, at this time, program staffing is adequate. Timeliness of services to veterans for new loan originations is good to excellent at all regional offices. We are making significant improvements in delinquent loan servicing and our property management operation is functioning well.

LOAN GUARANTY SERVICE MONITORING UNIT

Mr. Chairman, I would now like to address the results of our recently established lender monitoring unit. Although the Monitoring Unit has been fully operational for only 1 year, it has completed 119 on-site reviews of lenders. During its first year of operation, the Monitoring Unit reviewed lender compliance with VA loan origination requirements. Lenders were selected for review based on high volume activity, early default activity, and referrals from VA regional offices. Reports have been finalized on 29 of the on-site reviews and 37 preliminary reports have been forwarded to lenders for comment. Three of the final reports resulted in a claim recovery in the amount of $8,533 and indemnification for potential losses to VA in the amount of $54,675. The remaining 26 final reports found most lenders to be in general compliance with VA underwriting guidelines.

In addition to their own lender monitoring responsibilities, the Monitoring Unit coordinates the Loan Guaranty review and recovery of VA losses on cases identified by Office of Inspector General audits of lender operations. As a result of finalized OIG audits, $1,141,562 has been collected from lenders for noncompliance with VA credit standards. An additional $124,755 in guaranties has been denied.

In FY 1992, the Monitoring Unit is scheduled to begin reviewing servicing lenders as well as originating lenders. An additional 10 FTE have been authorized for this purpose.

INSURED TEN-YEAR PROTECTION PLANS

Mr. Chairman, you may also be interested in hearing that changes are being made to VA's policies and procedures on the acceptability of insured 10-year protection plans that in some cases cover homes which serve as security for VA guaranteed loans. Since 1977 VA has processed over 300,000 proposed and existing homes enrolled in protection plans.

Builder and lender participants, as well as our field stations, benefit from these plans as a result of expedited processing and a reduction of VA compliance inspection procedures. Protection plans basically provide benefits to veterans in two major areas. First, there is the benefit of a warranty period which extends beyond the builder warranty period required by VA. Secondly, in many cases the veteran is able to buy a home which would not qualify for VA financing because the builder did not for some reason obtain required VA inspections during construction. The opportunity for the veteran to buy the home of his or her choice is viewed as an important goal of the Loan Guaranty program.

In general, we believe that these protection plans are working. However, both VA and HUD have recognized some shortcomings with these plans that have developed over the years. HUD recently published final regulations concerning the criteria for acceptability of insured 10-year protection plans and is making significant revisions to their administrative procedures for these plans. The effective date of HUD's changes is August 6 of this year.

VA representatives have been in close contact with HUD during the development of their changes. Consequently, VA is also in the process of making revisions to its policies and procedures covering protection plans. Those revisions will utilize HUD's plan acceptance and will establish similar procedures. For the most part, the changes involve the strengthening of the criteria for the initial, and continued, acceptance of protection plans and, therefore, the impact is focused on the providers of these plans. For instance, the new rules will provide for closer agency oversight of insurer's claim settlement procedures. The impact on VA field stations will be negligible. Principally, we believe that the revised procedures will result in improved plan responsiveness to veteran homeowners who experience construction related problems, while continuing to allow plan providers to market their product to builders desiring the benefits offered by insured 10-year protection plan coverage. The effective date of VA's revised procedures for protection plans will be the August 6 date established by HUD.

H.R. 939 - GI LOANS FOR RESERVISTS AND NATIONAL GUARD MEMBERS

Mr. Chairman, you requested our comments on two pending bills. The first bill, H.R. 939, would extend VA home loan guaranty benefits to persons whose only service was in the reserve components of the Armed Forces, including the National Guard. Persons who had at least 6 years total service in the Selected Reserve would be eligible for housing loan benefits. Former and current reservists would pay a higher loan fee than veterans.

We do not support an extension of these housing benefits to persons whose only service was in the Reserves. VA recognizes the significant contribution which the members of the reserve components of the military, including the National Guard, make to the Nation. We are pleased to note that the recently enacted Public Law 102-25 provides VA home loan eligibility to reservists who were called to service during the Persian Gulf War and served at least 90 days on active duty. However, we believe it is inappropriate to extend this readjustment benefit to persons already in civilian life who did not serve on extended full-time active duty, and whose military service did not limit their ability to finance the purchase of a home.

H.R. 1384 - ADJUSTABLE RATE MORTGAGES

The other bill, H.R. 1384, would require VA to conduct a demonstration program for adjustable rate mortgages (ARMs). The program would be implemented in at least 2 but not more than 10 VA regional offices during Fiscal Years 1991 and 1992.

Currently, VA sets an interest rate for guaranteed loans which is fixed for the life of the loan. VA has consistently opposed ARMs because of difficulties encountered by borrowers in some cases. Although ARMs have become more common in the industry and certain of the past difficulties have been remedied, VA continues to have major concerns with this type of mortgage loan. Default rates for ARMs still exceed defaults for fixed rate loans, both in the conventional and FHA markets. When coupled with the increasing risk of borrower defaults attributable to the expected lower appreciation of housing prices, a new VA ARM provision would likely increase program costs. As a result of the problems I have noted, we do not favor the introduction of an ARM program even in a limited pilot program at this time.

Mr. Chairman, in addition to opposing the provisions of H.R. 939 and H.R. 1384 for substantive reasons, the Administration also opposes these bills on the grounds that they do not include provisions that will offset their increased cost, which is considered direct spending for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990. We are working with OMB to determine what those costs would be.

FY 1992 BUDGET PROPOSALS

Now, Mr. Chairman, I would like to briefly discuss three proposed changes to the Loan Guaranty program that were included in our 1992 budget request, and which we believe will further improve the operations of the program and strengthen its financial integrity.

Multiple Use of the Loan Benefit

Mr. Chairman, the loan guaranty benefit was established as a readjustment benefit to promote home-ownership among veterans whose service to the Country prevented them from saving money for downpayments. Initially, veterans had to use their loan guaranty benefit within 10 years after being discharged from service, and once used, the benefit could only be restored in cases where the veteran lost the property because of condemnation or disaster. Under current law, however, the loan guaranty program allows restoration (multiple use) of the loan guaranty benefit, so long as the borrower's previous debt has been paid in full and the property has been disposed of.

Our proposal would protect the current benefit of the no-downpayment loan to first-time VA borrowers, our active-duty military personnel, and veterans who simply want to refinance their existing VA loans.

We believe, however, that simply allowing unlimited multiple use of the loan benefit goes far beyond a readjustment benefit. A veteran who has received a VA guaranteed loan, and has paid it off, should have sufficient equity, credit, and home-ownership experience to make subsequent purchases with conventional financing. In Fiscal Years 1989 and 1990, nearly 20 percent of new VA guaranteed loans were made to veterans with restored entitlements. These borrowers receive the same benefit as one-time users--they are charged the same fees, pay the same interest rates, and are not required to make a downpayment. Providing borrowers with additional no-downpayment loans creates an incentive for the veteran to remove most or all of the equity from their existing home, which exposes the veteran and the Government to unnecessary risk.

Having said this, let me make it clear that we do not believe that multiple use should be eliminated. We simply want to reform this benefit so it no longer puts veterans at a higher financial risk and generates increased costs to the program. Therefore, the Department is proposing to require a 2.5 percent fee and a 10 percent downpayment for second and subsequent use of the loan benefit. We estimate that the increased fee will just cover expected future losses on the loan and the downpayment would serve as a hedge against defaults, which will benefit not only the VA, but also the veteran.

Add Resale Losses to Net Value Calculation

Mr. Chairman, we are proposing to correct a flaw in the "no-bid" formula that was discussed earlier. The no-bid formula is intended to ensure that VA only acquires foreclosed property when it is in the taxpayers' best interest to do so--that is, when we expect the Government's losses to be reduced by acquiring and reselling the property. We estimate that in 30 to 40 percent of the cases, the no-bid formula gives the wrong answer, because it does not include expected losses on the resale of the property. The current formula determines the net value of the property based on the liquidation appraisal at foreclosure. In many cases, however, the property sells for much less than that, and the resale price is less than what was expected when VA acquired the property. Therefore, VA acquires more property and loses more money than it should.

We are proposing to correct this flaw in the formula by including an average resale loss factor in the no-bid formula. This improvement would move the no-bid formula closer to achieving what Congress had intended--cost-effective property acquisitions.

Also, included in this proposal is a provision to exempt the Government National Mortgage Association (Ginnie Mae) from VA no-bids in cases where the issuer has been defaulted. This provision recognizes that the Ginnie Mae program should not be required to pay for losses associated with defaulted VA loans. The six basis point fee charged by Ginnie Mae is primarily used to create a reserve fund to meet its obligation to provide timely payment of principal and interest to security holders. The fund is not intended to cover losses on defaulted loans. The only time Ginnie Mae is exposed to such losses is in the case of a VA no-bid--FHA pays for all losses on its loans. Exempting Ginnie Mae from VA no-bids corrects this problem.

Make Reconciliation Fee Increase Permanent

Finally, Mr. Chairman, the Congress recognized the need to put the Loan Guaranty program on sounder financial footing when it included in the Omnibus Budget Reconciliation Act of 1990 a provision which raised VA's loan origination fee from 1.25 percent to 1.875 percent for a no-downpayment loan. On the average $80,000 loan, the borrowers fee was increased by only $500. We do not believe this increased fee is excessively burdensome, nor do we believe it prevented veterans from buying a home.

The fee increase is temporary and will expire on October 1, 1991. We believe the current fee should be made permanent, and we urge Congress to give this proposal prompt consideration. Its enactment would help offset future program costs.

VA will be transmitting draft legislation to implement these proposals in the near future. We urge prompt consideration of these proposals.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions which you or other members of the Subcommittee might have.

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

(202) 861-6507
FAX: (202) 452-8785

STATEMENT OF

THOMAS T. SHEALY, CMB
PRESIDENT AND CHIEF EXECUTIVE OFFICER
SUNTRUST MORTGAGE, INC.
ATLANTA, GEORGIA

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

Oversight Hearing on

The Department of Veterans Affairs Loan Guaranty Program

May 2, 1991

Mr. Chairman and Members of the Subcommittee, I am Thomas T. Shealy, President and Chief Executive Officer of Suntrust Mortgage, Inc., in Atlanta, Georgia. I am a former president of the Mortgage Bankers Association of America (MBA)[1], and am currently serving as chairman of MBA's VA Liaison Committee. Accompanying me today are Michael J. Ferrell, MBA's Senior Staff Vice President, Legislative Counsel, and Burton C. Wood, MBA's Senior Staff Vice President.

MBA appreciates the opportunity to appear before you today to testify on the Loan Guaranty Program of the Department of Veterans Affairs (VA), on HR 393, a bill to provide VA home loan guaranty program eligibility to members of the National Guard and the Selected Reserves; and on HR 1384, a bill to provide a demonstration program for VA adjustable rate mortgages.

FISCAL YEAR 1992 BUDGET

First of all, I would like to express our appreciation for this Subcommittee's and Congress' action in not approving three of the Fiscal Year 1992 budget proposals that had been submitted by the Administration with respect to the VA Home Loan Guaranty Program.

No-Bid Formula

The first proposal involved another attempt to alter the "no-bid" formula. The no-bid formula is used by the VA, in the event of a mortgage default by a veteran, to determine whether the VA will accept conveyance of the property from the lender or will only pay the lender the amount of the guaranty and turn the property over to the lender--a "no-bid"--for disposition. In the latter event, the lender bears the risk of a much larger loss.

For the past several years, the Administration has made repeated attempts to alter the no-bid formula to force more cases into a no-bid situation. The first of these was a proposal to include in the no-bid calculation the cost of borrowing funds for the entire Federal Government, rather than only the out-of-pocket costs to the VA. Congress rejected this proposal. Another attempt to alter the formula occurred in last year's Budget when the Administration proposed to include, in the no-bid calculation, the VA's average loss per property. Congress rejected this change, also.

Once again, the Administration's FY'92 Budget included the average loss per property proposal. MBA strongly opposed this proposal. At the present time, the average cost to a lender for a no-bid is approximately $15,000 to $20,000 per property. If the Administration's proposal had been implemented, we estimate that the percentage of no-bids for lenders would have doubled from the present 18 percent to about 35 percent of all claims. This would have been a further disincentive for lenders to participate in the program, one that could only operate to the veteran's disadvantage.

VA Loans In GNMA MBS Pools

A second FY'92 Budget proposal would have exempted the Government National Mortgage Association (GNMA) from the application of the VA no-bid procedure for VA loans in GNMA acquired mortgage backed security (MBS) pools. This would have required an appropriation for the VA Home Loan Guaranty Fund of an estimated $147 million over five years.

MBA opposed this proposal. GNMA should be treated like any other lender in these no-bid instances. MBA has long argued that excessive no-bid losses are being imposed on lenders and we continue to feel that way. But we are compelled to object when one particular lender, GNMA, a government agency, is offered relief while private lenders are left exposed to such losses. Further,

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[1] The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of residential and commercial real estate finance. MBA's membership comprises nearly 2,300 mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios.

Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; Telephone: (202) 861-6500.

MBA is concerned that by transferring these losses to the VA, even though the amount of losses is unchanged, it would add to the apparent losses to the VA fund and thus build up further pressure to curtail the VA loan program or pass additional losses onto private lenders.

Program Fees

And finally, a third major proposal, affecting the VA Home Loan Guaranty Program, would have (1) made permanent the 1.875 percent funding fee and (2) increased the fee to 2.5 percent and required a 10 percent downpayment for all but active duty personnel, if the veteran had used the VA Home Loan Program before.

We believe that imposing increased fees and substantial downpayments for the program, before adequate and suitable studies have been undertaken to examine the impact of these changes on the veteran homebuyer that the program was designed to serve, is precipitous and unwise. While MBA has recently approved supporting a conversion of the program to one of full insurance, over a period of time, a careful and considered examination of how this should be accomplished should be undertaken. The issue of conversion to a full insurance program is addressed later in this testimony.

VA HOME LOAN GUARANTY PROGRAM

The following addresses MBA's interests and concerns about the VA Home Loan Guaranty Program.

Appraisals

Section 3 of HR 232, passed by the House on February 6, 1991, and pending before the Senate, extends the authorization of the Lender Appraisal Processing Program (LAPP) until December 31, 1991. It is our understanding that the Senate will extend the program until December 31, 1992, when it acts on the bill.

We would urge that Congress extend authorization for the program as promptly as possible and that the VA implement it expeditiously. Current VA policy requires that every property appraisal be approved by the local VA Field Station prior to being sent to the lender for underwriting. No other Federal mortgage program requires this much agency review. It unnecessarily complicates and delays the loan closing process for veterans. LAPP will enable lenders to process appraisal reports directly. With the advent of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) appraisal provisions, and appraiser reforms now underway in the states, it is increasingly necessary for the VA to bring its appraisal policies current with prevailing mortgage industry practices.

Current law requires appraisers to be selected on a rotational basis from the approved VA panel. This provision was put into the law at a time when the VA was the only agency using independent appraisers. With the full implementation of FIRREA, we believe that such a requirement is no longer necessary, because only licensed and certified appraisers will be able to perform appraisals in the future. Without a change in the VA law, the VA requirements become costly, time consuming, and unnecessary.

Property Disposition

MBA has always supported a reasonable and sensible approach to the disposition of VA acquired properties. The manner, quantity, and timing of these sales must take into account the soundness and condition of the local real estate market, and avoid "firesales" and unnecessary resulting market depressions.

VA Conveyance Policy

We would like to bring to the Subcommittee's attention a recently proposed VA regulatory change covering the conveyance of properties. Currently, when a lender forecloses and VA accepts conveyance of the property, custody of the property is transferred to the VA immediately upon foreclosure, regardless of whether the veteran occupies the home or not. The new proposal would require eviction of the veteran occupant prior to conveyance. Such an unfeeling policy can only result in potentially unfair treatment of the veteran occupant, preventing possible workout arrangements, and will subject the lender to unnecessary costs.

Staffing

On loan originations, staffing appears to be adequate. However, we continue to hear complaints about claim processing and payment delays. This problem will be exacerbated now that VA has begun identification and processing of VA no-bid errors.

MBA PROGRAM RECOMMENDATIONS

MBA policy has previously supported the VA Home Loan Guaranty Program as an entitlement program, due veterans as a result of military service to the Nation. However, over the past several years, the entitlement feature of the program has changed. Increased fees and new entitlement fees have been imposed. More of the cost of the program has been shifted to the lender. This has prompted the Association to re-examine its policy on the program, and recommend converting it to an actuarially sound, full insurance program.

In 1989 and 1990, I chaired an MBA Task Force which reviewed the VA program and made a number of recommendations. At its October 1990 meeting, the MBA Board of Governors approved the recommendations of the Task Force.

Two of the recommendations dealt with Federal legislation. One was to freeze the no-bid calculation process at the current level for VA loans already made; and provide that any future increases in costs be applied on a prospective basis to new originations only. The second recommendation supports legislation to change the program to a full insurance program similar to that of FHA, one that is actuarially sound.

As a first step in the process, MBA urges Congress to ask the VA to conduct a thorough study of the program from the standpoint of fees, fund safety and soundness, and, most importantly, the most efficient way of serving the housing needs of our veterans. MBA would be pleased to assist in any way possible in such an undertaking.

A copy of the MBA Task Force Report is attached.

HR 1384, VA ARM

HR 1384 would provide for a two-year demonstration program for VA adjustable rate mortgages (ARMs). MBA urges that the VA be authorized to include ARMs in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and the Federal Housing Administration (FHA) has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise. ARMs have been an accepted market instrument since the early 1980s and we believe that a further demonstration program is unnecessary.

MBA believes that VA ARMs should be authorized in a manner that would allow the DVA Secretary to conform VA ARM interest rate adjustments to the FHA ARM program. The Secretary should be authorized to guarantee loans with adjustment caps acceptable in the marketplace. Because FHA and VA mortgages can be placed in the same GNMA pool when they meet GNMA's pooling requirements, standardization of both VA and FHA ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Although substantially lower interest rates in the last several years restored borrower ability to select fixed rate mortgages, ARMs continue to be a significant borrower option in the conventional and FHA markets in higher interest rate environments. Veteran borrowers should also enjoy the option.

HR 939, RESERVIST ELIGIBILITY

The provisions of HR 939 would expand the Loan Guaranty Program to certain members of the National Guard and Reserve components of the U.S. Armed Services. This is an interesting proposal and one which MBA believes could operate not only toward affordable home ownership opportunities for these men and women involved in the National defense effort, but also, if properly implemented, could help maintain the safety and solvency of the fund. We understand that the proposal may envisage a different level of benefits for this new class of borrowers. MBA would urge that the benefits extended be meaningful and that any variance from current program requirements be minimal to allow for pooling these loans with other VA and FHA loans in GNMA pools.

The recent performance of the reservists in Operation Desert Storm would appear to be more than adequate justification for this expanded eligibility. It's the right time to do the right thing by them.

SOLDIERS' AND SAILORS' CIVIL RELIEF ACT

While the Soldiers' and Sailors' Civil Relief Act is not the subject of these hearings, we would like to call your attention to the fact that mortgage lenders are bearing an unfair burden with respect to VA loans in GNMA MBS pools as a result of the application of the 6 percent interest cap provisions of the Act.

MBA testified on this issue last year before the Joint Hearings held by the House and Senate VA Committees on September 12, 1990. At that time, we pointed out that FHLMC and FNMA had agreed to absorb the losses on their conventional loans as a result of the Act's application. However, GNMA refused to adopt a similar policy with respect to VA loans in GNMA MBSs.

In January 1991, MBA conducted a survey to determine the losses being suffered by lenders. The lenders responding to the survey service approximately 31 percent of all loans in GNMA MBS pools. Based on these reports, MBA estimates the average monthly loss to lenders totals slightly more than $2 million. While MBA does not question the need to provide those called to active duty with some relief from their financial obligations, MBA feels that it is unfair for private lenders to be asked to provide this relief.

Joint House and Senate VA Committee hearings on this issue were scheduled for March 21, 1991, but were postponed. We respectfully urge that these hearings be held as promptly as possible in order that the Congress may consider correcting the inequities that lenders are presently experiencing.

We appreciate the opportunity to appear today and would be pleased to furnish any additional information.

Mortgage Bankers Association of America

VA TASK FORCE REPORT

October 1990

Thomas T. Shealy, Chairman
Felix Beck, Vice Chairman

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VA TASK FORCE REPORT
Chairman's Report

Because of the many changes that have been taking place in the VA Home Loan Program and the losses being sustained by some of our members as a result of no-bid problems, President Wynn asked me to serve as Chairman of a Task Force to thoroughly review the VA program as to present and future operations for membership participation.

Ronnie asked Felix Beck to serve as Vice Chairman. The other members that came from production and servicing areas are:

Bill Glasgow
Hugh Harris
Buddy Hardwich
O. B. Hawkins
Judy Kent
Loyal LaPlante
Sidney Lenz
Don Maiolatesi
David Marshall
Bob Richards

We have met on three different occasions and have now concluded our work and would like to present our report. Our recommendations fall into two categories -- short term and long term initiatives.

But, before I present these, let me say that we felt that we needed in some way to improve the communications with the upper echelon of the Veterans Administration. While MBA has an excellent relationship with the loan guaranty staff, the new cabinet level status for the Department of Veterans Affairs necessitated that MBA develop an effective dialogue with the Secretary's office to make certain that they understand our industry's concerns. In January of this year, Ronnie Wynn, Felix Beck, and I together with Warren Lasko and Bob O'Toole of the MBA staff, met with Anthony Principi, Deputy Secretary, Department of Veterans Affairs, and hopefully set the stage for better communication. The proposed VA-MBA Liaison Committee was an outgrowth of this meeting and will be listed under short term objectives.

I would now like to outline our recommendations.

The short term recommendations are as follows:

1. Conduct ongoing educational efforts for our members with emphasis on risks and pitfalls of the VA Program as it is currently being administered and operated. This communication should be in the form of panel discussions, magazine articles, member experiences, etc.

2. Establish a VA-MBA Liaison Committee made up of senior members of Loan Production and Servicing. This Committee will be under the jurisdiction of the Single Family Committee and is presently in the process of being established.

3. Promote legislation that freezes the no-bid calculation process at its current level for VA loans already made. Any future increases in costs will apply on a prospective basis to new originations only.

4. Improve the foreclosure and liquidation processes with the goal of reducing the total cost of foreclosures both for the VA and our members, namely in the areas of deed in lieu of foreclosure, buydowns, compromise agreements, etc.

5. Give the lender greater control over the entire origination, servicing, liquidation processes.

6. Request MBAs GNMA Liaison Committee to monitor the impact of VA no-bids on the solvency of the GNMA Program.

7. Recommend that MBA review its current policy that supports the VA Lending Program to see if we can continue to do so under its present form of operation and administration.

The long term recommendations are:

1. Recommend proposing legislation to change the program to a full insurance program similar to that of FHA, one that is actuarially sound.

2. Encourage the VA to consolidate its operations by reducing the number of field stations as the demand for the program diminishes.

With these changes, the Task Force believes that the VA loan guaranty program can prosper in the future.

Thomas T. Shealy, Chairman

Mortgage Bankers Association of America
VA Task Force Report

The Department of Veteran Affairs (hereafter referred to as VA) began guaranteeing VA loans in 1946. Over its more than 40 year history, VA has guaranteed 13 million mortgages on homes for our Nation's veterans. Mortgage bankers can take great pride in the role that they have played in housing the American veteran. In the last 20 years alone, mortgage bankers have made more than 75 percent of all VA home loans.

For many years, the VA housing program epitomized how the Federal Government can work with the private sector to expand homeownership opportunities. The Federal Government through the VA loan guaranty program served as a backstop to encourage lenders to make no downpayment loans to our Nation's veterans. Without this assistance, millions of veterans would not have been able to realize the dream of homeownership. Equally important, this benefit was provided at little expense to the Federal Government.

In the last five years, however, this view of the VA program has changed dramatically. Economic problems have devastated entire regions of the country. Increased unemployment rates coupled with declining property values have ruined housing markets in these areas. The net result has been a dramatic increase in foreclosures. For the VA program, the result has been equally devastating. VA has needed appropriations of approximately $3 billion to cover program operating costs. Lenders have incurred close to $1 billion of unexpected financial losses in the VA program through the no-bid process.

The impact of these losses has been clear. VA loans, which were once some of the most valued loans in the marketplace, are now avoided in many areas. Because of their mounting financial exposure, lenders have been compelled to impose additional requirements (e.g. tightened underwriting and no partial entitlement) to protect themselves against future liability.

In September 1989, then President-elect Ronnie Wynn commissioned a Task Force of distinguished MBA members to evaluate the VA home loan program in detail. Under the leadership of Chairman Thomas Shealy and Vice Chairman Felix Beck, the Task Force was charged with the responsibility of investigating both short- and long term issues facing the VA program. In this report, the Task Force's findings are presented.

I. Background

A. Veteran Demographic Information

To evaluate the prospects for the VA program over the next decade, it is important to examine pertinent demographic projections for the veteran population. The following table provides veterans by age category. (All data in this report supplied by VA unless otherwise indicated)

Veterans Age Profile
1989 - 2000

Veterans Age	1989	1995	2000	Percent Change 1989-2000
Under 35	2,963,100	2,200,800	1,996,100	- 33
35 - 44	5,716,700	3,627,700	2,903,100	- 49
45 - 59	8,245,700	8,470,900	8,016,300	- 3
60 and above	10,177,100	11,279,000	11,079,700	+ 9
TOTAL	27,102,600	25,578,400	23,995,200	- 11
Median Age	54.66	56.75	58.14	

There are two fundamental conclusions from this data. First, the number of veterans will be decline (11%) over the next ten years. In addition, over the next ten years, there will be a steady decline in the number of veterans in the key homebuying ages (under 35 and 35-44 categories). The number of veterans under the age of 35 will decline by one-third and veterans between the ages of 35-44 will drop almost in half by the year 2000. These declines could even accelerate further if the current improved prospects for reduced world tension materialize in the next decade.

B. VA Loan Activity

VA loan activity has fluctuated considerably over the last 15 years depending on market conditions. However, as the following chart demonstrates, there has been a steady decline over the last several years. (FHA activity is provided to give a perspective.)

Mortgages Guaranteed/Insured
By Year

YEAR	VA	FHA*
1974	309,977	195,850
1976	328,617	250,808
1978	364,543	334,108
1980	266,256	381,169
1982	92,957	166,734
1984	198,431	267,831
1986	345,975	921,370
1987	451,136	1,274,741
1988	232,638	721,273
1989	182,559	648,416

*Source: Federal Housing Administration

With the exception of 1982 when interest rates were at record levels, the FY 1989 activity was the lowest in the period analyzed. FHA, on the other hand, is experiencing much higher levels of activity in the last several years compared to the 1970s.

C. VA Loan Performance

The following table provides for the 1980s the number of VA loans originated and loans outstanding and the percentage of loans paid-in-full, foreclosures and loans outstanding by year of origination.

VA Loan Guaranty Activity
September 1989

Fiscal Year	Total Guaranteed	Loans Paid-in-Full	Foreclosure Rate	Loans Outstanding Number	Loans Outstanding Rate
1988	189,120	1.4	.2	185,961	98.3
1987	378,268	3.1	1.0	368,221	95.9
1986	429,979	8.6	2.7	384,323	88.7
1985	211,103	40.5	8.7	107,647	50.7
1984	183,379	52.7	13.9	61,379	33.4
1983	301,115	47.3	11.7	123,652	41.0
1982	97,251	65.0	18.9	15,736	16.2
1981	155,125	50.9	20.8	43,967	28.3
1980	264,783	32.8	14.4	86,878	52.8

Source: Department of Veteran Affairs

VA has experienced its greatest percentage of foreclosures from FY 1981 and 1982 originations. There are only 59,703 mortgages outstanding in these two years. Equally positive, of the

1.38 million loans outstanding that were originated in the 1980s, 938,505 or 68 percent were originated in Fiscal Years 1986, 1987 and 1988 when many lenders had become aware of the no-bid problem and revised their VA loan origination policy.

D. VA Foreclosure Analysis

The following table provides the number of foreclosures broken down by the fiscal year in which they were originated. (For example, in FY 1988, 615 foreclosures were originated in 1987; 4821 were originated in 1986 and so on.)

Foreclosures By
Year of Guaranty*

Fore-closure FY	Fiscal Year Originated							
	1987	1986	1985	1984	1983	1980-82	Pre-1980	Total
1988	615	4821	8023	8676	9695	11,500	9114	52,044
1987	5	696	4461	7797	8502	11,887	7607	40,955
1986	---	6	908	5100	7355	12,904	6995	33,268
1985	---	--	16	1274	5249	15,624	7651	29,814

* 1988 data are latest available

While the data reflects expected results (i.e. most foreclosures occur in years 2-5), it is surprising that there was an increase in the number of foreclosures in the 1988 that were originated prior to 1980.

E. VA Organizational Structure

On March 15, 1989, the Veterans Administration achieved cabinet level status and became the Department of Veteran Affairs. While this change will increase veteran awareness at the highest levels of the government, it is uncertain whether it will have any effect on the VA home loan program. Whenever the VA housing program is discussed, it must be remembered that the VA does not view itself as a housing agency. Its primary function is to operate a vast health care system of about 170 medical centers employing 200,000 employees. VA also has responsibility for administering programs involving veterans benefits. While the VA loan guaranty program is one of the programs administered by the Veterans Benefits office, foremost in this area is the adjudication of disability claims and processing payments. In fact of the 13,500 employees in the benefits area, only about 2,000 are involved in the loan guaranty program.

With regard to the staffing situation, staff are allocated to the regional office directors who oversee the entire benefits area. It is the director's prerogative to allocate staff to the various divisions within his/her office. Since few have any housing experience, they are unlikely to understand the importance of timely responses in the home loan business (e.g. issuing loan guaranty certificates or providing foreclosure appraisals).

F. Role of Veterans Organizations

Over the past few years, the established veterans organizations (American Legion, Veterans of Foreign Wars and Disabled American Veterans) have increasingly concentrated their efforts in the health care and veteran benefits areas and have not shown any real interest in the VA housing program. When one considers that these groups' membership is comprised of predominantly older veterans whose principal concerns are no longer housing, but health care, this occurrence is not surprising.

However, this lack of interest may be changing. In response to recent Bush budgetary proposals for FY 1991 that are discussed in Section III-B, the Veterans of Foreign Wars was highly critical and indicated that the proposals would devastate the program. The American Legion is also developing a Task Force to evaluate the program.

The Vietnam Veterans of America have also shown some interest in the housing program. In fact, recently, they wrote a letter to the VA voicing concern about its viability. Unfortunately, their influence has been limited to date on Capitol Hill and at the VA. However, as the demographic data point out, they will become a growing force in veterans affairs as we progress into the 1990s.

II. VA No-Bids

Under the VA guaranty program when a loan goes into foreclosure, the lender generally conveys the property to VA and is reimbursed for the outstanding loan balance, accrued interest and other expenses. For the first 35 years of the VA program, this process was used in more than 95 percent of cases. In the remainder of cases, the total outstanding debt exceeded the appraised value of the property minus VA's acquisition, holding and sales costs by more than the guaranty. In these few cases, VA paid the guaranty leaving the lender with the task of disposing of the property and paying off the investor. These cases are referred as "no-bids" since the VA does not give the lender a bid for the foreclosure sale. Under statute, the guaranty amount should be the maximum loss VA incurs on any property.

A. No-Bid Activity

In August 1984, Congress passed legislation to include VA's administrative and overhead costs in the estimate of its costs to sell properties. This change had the effect of dramatically increasing the number of no-bids.

Below is a table providing the volume of VA no-bid activity and the impact of 1984 legislation.

No-Bid Activity

Fiscal Year	No-Bids	Total Liquidations	Percent No-Bids
1980	373	10,699	3.5
1982	238	17,071	1.4
1984	1,501	25,555	5.9
1985	3,059	29,004	10.5
1986	5,234	34,642	15.1
1987	9,097	43,316	21.0
1988	11,391	47,712	23.9
1989	7,467	41,456	18.0

While the FY 1989 numbers appear slightly encouraging, it is important to remember that lenders began "buying down" VA's projected foreclosure loss to avoid no-bids with greater frequency as this practice became more widely known. The following table provides a breakdown of VA liquidation and no-bid activity with a separate column for "buydowns" for FY 1989.

Quarter	Total Liquidations	No-bids	Buydowns	Percent No-bids/Buydowns
1st	9,815	2,129	245	24.2
2nd	10,545	2,282	498	26.4
3rd	11,177	1,905	810	24.3
4th	9,919	1,151	821	19.9
Total	41,456	7,467	2,374	23.6

When buydowns are included with the no-bids, the percentage of cases in which the lender incurs a significant financial expense is comparable to 1988.

B. Cost of No-Bids

No-bids have caused severe financial problems for many servicers of VA loans. Several companies have gone out of business leaving their servicing portfolios for the Government National Mortgage Association to administer.

To assess the cost of a no-bid transaction on a per case basis, the Task Force commissioned a survey of the largest VA servicers. The following table breakdowns the costs of no-bids and buydowns separately for 1989.

Impact of No-Bids on Lenders
Lender Costs Per Case

No-Bids	$19,646
Buydowns	$10,140

VA no-bids are extremely costly to a lender. Using the survey averages, lenders incurred losses of $147 million for no-bids and $24 million for buydowns in 1989. The combined $171 million lender loss documents the financial impact of the VA program on the lender. Since 1984, lenders have lost close to $1 Billion.

This problem is exacerbated because no-bids are concentrated in economically distressed areas. The following table provides the states with the highest number of no-bids.

FY 1989 No-Bid Activity

States	No-Bids
Texas	2803
Oklahoma	834
Colorado	567
Alaska	525
4 State Total	4729
U.S. Total	7467

These four states had 63 percent of the VA no-bids in the entire country or $93 million of the losses. For Texas, it is even worse as 37 percent of all no-bids ($54 million of losses) took place there. Accordingly, lenders doing business in these states have incurred a disportionate share of the no-bid losses.

III. Current VA Program Status

During the last several years, there has been an ongoing struggle between the industry and the Veterans Administration and the Office of Management and Budget over the direction of the VA program in general and the no-bid process in particular. For example, on March 31, 1989, the VA published a proposed regulation that would increase VA estimated costs of selling foreclosed properties by including the government's "cost of borrowing" when calculating the "net value" for no-bid purposes. MBA estimated the net effect of that change would have been an increase in the number of no-bids by 10 percent.

Since MBA believed that the VA did not have the authority to make this change, it filed suit in Federal District Court to stop implementation of this change. The judge granted MBA's request. The Congress resolved this issue by specifically stating in the new legislation enacted in December that Federal Government's "cost of funds" could not be included in the no-bid process.

A. Legislative Changes

On December 18, 1989, the President signed into law the Veterans Benefits Amendments of 1989. In addition to excluding the government's "cost of borrowing" in the no-bid formula, a principal focus of this legislation was to improve the financial soundness of the VA home loan program. It has the following provisions:

1. Guaranty and Indemnity Fund (GIF)

The legislation set up an indemnity fund for all loans originated in 1990 and thereafter. The Federal Government will contribute a total of .75 percent per loan. Equally important, any surplus funds in the GIF would be retained for the benefit of the VA home loan program rather than deposited into the Treasury.

2. Sliding Scale Funding Fee

To encourage veteran cash downpayments, the legislation changed the funding fee schedule. For no downpayment loans, the funding fee was raised to 1.25 percent. For loans in which the veterans makes a downpayment of 5 percent but less than 10 percent, the funding fee was reduced to .75 percent. For loans in which the veteran makes a downpayment of at least 10 percent, the funding fee is now only .5 percent.

The legislation also released veterans from liability to the VA in the event of foreclosure, unless there are indications of fraud, misrepresentation or bad faith.

3. Maximum Guaranty

For loans above $144,000, the guaranty was raised to 25 percent of the loan amount up to a maximum loan of $184,000.

B. FY 1991 Budget Proposals

In contrast to the improvements included in the Veterans Benefits Amendments of 1989, the President's 1991 Budget contained several proposals that, if implemented, would severely impair the VA home loan program. The most serious problems are:

1. Increased Funding Fee

The budget proposes an increase of .5 percent in the funding fee to 1.75 percent. On a $100,000 home, this would increase the veteran's costs by $500 if the fee is paid at closing.

2. Downpayment Requirements

On all loans above $25,000, there would be a downpayment of 4 percent on the amount over $25,000.

3. No-Bid Formula Changes

Of particular importance to lenders, the budget includes a provision to include in the net value calculation VA's estimated loss per property (approximately $7,000). The net effect would be to raise the percentage used to calculate VA's administrative costs in the no-bid formula from 11.54 percent to 25.7 percent. VA estimates that no-bids would increase by 50 percent if this change is implemented.

C. Programmatic Changes

1. Loan Origination

At the present time, the principal regulatory issue involves the implementation of the lender review of the appraisal and estimating the value on the Certificate of Reasonable Value (CRV). MBA strongly supports this provision which was included in the 1987 VA Bill. With this change, unnecessary delays for VA review of the appraisal can be eliminated and lenders will be able to operate similar to the way they do under the FHA Direct Endorsement Program. It would also give lenders additional control over the origination process.

VA is also considering making changes to their underwriting processing criteria. A proposed regulation requires VA processing of loans outside of established thresholds for the credit ratio and the residual income criteria. The thrust of this proposal would lead one to believe that lender processed (VA automatic) loans have a higher foreclosure rate than loans processed by VA field stations. A review of VA loan data for the last five years (1984-1988 originations) indicate how unnecessary this regulation would be. The following chart categorizes foreclosure rates by type of processing.

Foreclosure Rates
By Fiscal Year of Origination

Fiscal Year	Prior Approval	Automatic	Total
1984	16.2	12.1	14.4
1985	11.3	7.6	9.3
1986	4.0	2.7	3.1
1987	1.7	1.1	1.3
1988	.6	.36	.39

* Foreclosures through December 1989

In every year, the foreclosure rate for VA automatic loans is more than 25 percent lower than the foreclosure rate for loans processed by the VA field stations.

2. Loan Servicing

MBA is concerned about a new VA proposal that would require lenders to convey properties vacant. Under current VA procedures, properties may be conveyed while they're still occupied. This new proposal would delay claim processing thereby increasing costs to the lender. Implementation of this proposal would further discourage lender participation in the VA loan program. The industry is waiting for VA to implement the new assumption regulations that permit lenders to process these transactions. The principal issue centers on the amount of fee that lenders can charge for this service. At present, the VA is considering a fee of $300. In addition, the industry is also waiting for the publication of regulations formalizing VA servicing policy.

IV. Task Force Analysis

The Task Force investigated four principal options for the VA program. They are:

A. Status Quo

During the last several months, there have been several positive actions with respect to the VA program. First, VA foreclosures have started to decline significantly. With that general decline, lender liability through no-bids and buydowns is also being reduced. In addition, the new VA legislation is moving the program in the right direction. It appears that the Congress shares MBA's concerns on the impact of program costs and is moving the program into "a pay as you go" mode.

On the other hand, the new VA budget proposals resurrect many of the ideas that have severely damaged the program in recent years. To implement a mandatory downpayment requirement all but eliminates the most significant benefit of the VA program for our Nation's veterans.

The no-bid provision would increase no-bids an estimated 50 percent (VA projection). Such an occurrence would wreak financial havoc on lenders which lack the funds to absorb such an increase.

In analyzing this option, the Task Force, while pleased that the Congress is moving the program toward financial solvency, concluded that the current status of the VA program results in continued excessive and unacceptable contingent liability for the lender. Because of the impact of local and regional economic downturns on the number of VA foreclosures and possible VA no-bids, the Task Force concluded that the lender needs additional protection to participate aggressively in the VA program in the future.

B. Revise Program within Current Framework (Downpayment and Tightened Underwriting)

The principal benefits of the VA program to the veteran are a no downpayment loan, a higher loan limit and a lower funding fee. The Task Force determined that to make changes within the current program framework would not address the fundamental problem with the VA program -- no-bids. After thoroughly discussing this issue, the Task Force concluded that few no-bids would have been avoided by the imposition of a reasonable downpayment or other program restrictions. Moreover, such changes would have eliminated the primary benefits of the program to the veteran.

C. Change Fundamental Program Structure

While the Veterans Benefit Amendments of 1989 made several positive steps, the Task Force concluded that the remaining no-bid liability required full protection of the lender's exposure. The Task Force believes that 100 percent insurance (similar to FHA) is the only way that lenders can operate in the program in the future. Like the FHA program, the veteran would pay a mortgage insurance premium to cover program costs. However, the veteran would retain the no downpayment provision and the access to a higher mortgage limit.

D. Integrate VA Home Loan Program into FHA

Because of the interest in a full insurance program, the Task Force analyzed the possibility of merging the VA program into the existing FHA program. While there would be benefits to the merger (e.g. reduced administrative costs to government for staff, office space, etc. and more consistency of program guidelines), the Task Force concluded that the current problems at the Federal Housing Administration make it inappropriate to consider that option at the present time. The Task Force believes FHA is not ready to undertake such a responsibility in the current environment.

V. Task Force Conclusions and Recommendations

The VA Task Force believes that VA lending will continue to decline. In light of the demographic shifts in the veteran population, there will be less of a need for the VA program. It is estimated that by the year 2000, VA loan activity will drop below 100,000 loans per year unless changes are made to eligibility criteria. VA lending will then become more specialized as its market share will drop to 2 percent from its historical levels of 5-10 percent and will be regionalized to eligible areas where veterans and active military are concentrated. This number will be even lower if the need for military personnel is reduced significantly because of the easing of world tensions.

In addition to the decline caused by demographic factors, the Task Force believes that VA program activity will drop even further unless immediate changes are made to the program. The Task Force made the following recommendations which are divided into two categories -- short term and long term:

A. Short Term Recommendations

The Task Force recommends the following immediate actions:

1. Continue Member Educational Efforts On the Risks of VA Lending.

The Task Force believes that MBA should continue to alert the members about the risks and potential pitfalls associated with the VA program as it is currently being administered and operated. MBA's educational efforts should include panel presentations at conferences, articles in Real Estate Finance Today and Mortgage Banking and committee meetings.

2. Establish VA Liaison Committee

While MBA has a good working relationship with VA housing staff, the Task Force believes that the new VA cabinet level status necessitates the development of regular communication between senior VA officials (Secretary, Deputy Secretary and Chief Benefits Director) with MBA. The Task Force believes that this dialogue will improve VA's understanding of MBA concerns and that a special Committee should be formed for this purpose. This Committee will be comprised of senior members with loan production and/or servicing expertise. The Task Force also recommends that this Committee fall under the jurisdiction of the Single Family Committee.

3. Promote legislation that freezes the no-bid calculation process for VA loans already made.

The Task Force is deeply concerned that several recent Administration proposals (e.g. cost of funds), if implemented, would have greatly increased lender's no-bid liability. What is particularly disturbing is that lenders would have been unable to take any actions to protect themselves against the increased liability from these actions.

Lenders must be able to assess all risks at the time of loan origination. Once the loan is made, the Task Force feels very strongly that VA should not be able to change any program requirements (particularly with respect to no-bids) that increase lender liability on loans already made. The Task Force believes that any changes (after going through the appropriate legislative and/or rulemaking processes) should only affect loans made after implementation of the new policy. In this way, lenders can assess the impact of the change and modify their VA lending strategies accordingly.

4. Improve the foreclosure and liquidation process with the goal of reducing the total cost of foreclosures for both VA and the lender.

The Task Force believes that VA should utilize alternatives to foreclosure (deeds in lieu, compromise agreements, buydowns, etc.). The Government Accounting Office (GAO) in a recent audit made similar recommendations.

5. Give the lender greater control over the entire origination, servicing and liquidation process.

With no-bids, lenders have considerable contingent liability and yet, they do not have control over significant portions of loan process (origination appraisal and liquidation appraisal procedures). The Task Force believes that VA should implement a variety of changes to permit the lender to have greater control over the transaction. Examples include lender selection of the appraiser, processing of assumptions and control over the liquidation appraisal process. In addition to the fact that lenders would have control commensurate with their accountability, these changes would enable lenders to provide better service to veterans in the origination process and reduce processing time for foreclosure actions thereby reducing costs for both the lender and VA.

6. Request the GNMA Liaison Committee to monitor the impact of no-bids on the solvency of the GNMA Program.

The Task Force is concerned that VA no-bids have been a principal cause of several lenders' going out of business and turning over their servicing portfolios to GNMA. The Task Force believes that MBA through the GNMA Liaison Committee should monitor this situation carefully to ensure that the VA Loan Guaranty Program is not creating problems for GNMA that necessitate changes in the basic program structure (e.g. increased guaranty fee).

7. Re-evaluate MBA Policy Supporting VA Home Loan Guaranty Program.

MBA has been an ardent supporter of the VA program for many years. However, in the last several years, lenders' losses in the VA program have called into question the soundness of that policy as long as the program is administered in its the current form. The Task Force believes MBA, through the Single Family Committee, should

evaluate whether formal support for the VA program should be continued if the Task Force's recommendations are not accepted.

B. Long Term Recommendations

The Task Force made two long-term recommendations to ensure the continued viability of the VA Program. They are:

1. Change the VA Program to a full insurance program.

The Task Force believes that this change is critical for the VA program to continue in the next Century. Without such a change, no-bid liability will gradually reduce the number of lenders willing to make VA loans.

If this program is to remain as an entitlement to our Nation's veterans, it must be restructured to provide acceptable and controllable risk for the lender.

The Task Force also recognizes that the program must be actuarially sound and that it must pay for itself in the future as a result of expected budget constraints.

2. Encourage VA to consolidate its field loan guaranty operations.

As a result of increased delegation of responsibilities to the lenders, the Task Force believes that VA can realize economies of scale by consolidating certain origination functions in regional centers. In this way, VA could reduce costs and maximize available staff resources. For example, as more and more loans are processed under the VA automatic lender alternative, underwriting reviews and loan guaranty certificate issuances could be centralized. In light of the consolidation of servicing in national centers by the industry, it follows that VA could also centralize this process.

STATEMENT FOR THE RECORD OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
to the
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
of the
UNITED STATES HOUSE OF REPRESENTATIVES
on
THE DEPARTMENT OF VETERANS' AFFAIRS HOME LOAN GUARANTY PROGRAM
May 2, 1991

Mr. Chairman and Members of the Subcommittee:

My name is Wendell White, and I am pleased to testify on behalf of the National Association of Home Builders. I appreciate the opportunity to appear before you to present the views of the National Association of Home Builders' more than 155,000 member firms, representing eight million employees, on the Veterans Affairs (VA) Home Loan Guaranty Program.

Thank you for your invitation to testify. I respectfully request that our written testimony be included in the House Veterans Affairs Subcommittee on Housing and Memorial Affairs' permanent hearing record.

NAHB greatly supports the VA Home Loan Guaranty Program. Its mission is important: to allow veterans the opportunity to buy a home and achieve the American dream. Such veterans, because of their service to our country, would not otherwise be able to own a home. Our testimony concentrates on ways to improve and modernize the Home Loan Guaranty Program in order to better meet the needs of our veterans and active duty personnel.

ADJUSTABLE RATE MORTGAGES

To improve the VA Home Loan Guaranty Program, we again strongly support a VA adjustable rate mortgage (ARM) for veteran homebuyers. We urge the passage of H.R. 1384, Representative Lewis Payne's (D-VA) legislation to create a two year demonstration ARM program in two to ten regional offices. The ARM would be patterned after the existing FHA ARM. The Veterans

Affairs Department is the only major mortgage market participant without an ARM, yet about 25 percent of home loans made in the United States last year were ARMs. The veteran consumer should have the same options for financing as other consumers.

A VA ARM is needed to modernize the VA Home Loan Guaranty Program. The Rouse-Maxwell Housing Task Force report, "A Decent Place to Live," also recommends updating the VA program to include an adjustable rate mortgage. The report emphasizes that an ARM is necessary to make the program fully responsive to market developments.

ARM Features

Provision for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer. NAHB supports an adjustable rate mortgage (ARM) for the VA, similar to FHA's adjustable rate loan or those offered by the conventional market. These ARMs limit yearly interest rate increases, as well as the overall rate escalation, which acts as a cap. Additionally, a convertible ARM might be considered, which would allow a veteran to convert to a fixed rate loan after a set number of years.

ARMs have proven to be responsible, pro-consumer mortgage instruments and an important option for the homebuyer. Interest rates for an adjustable rate mortgage are typically one to two percent lower than a fixed rate loan. This could result in a savings of over $100 a month in mortgage payments on the average VA loan.

ARM Protections

Concern has been voiced that veteran homebuyers could be negatively impacted by ARMs during times of rising interest rates. However, with prudent credit underwriting and reasonable interest caps, homebuyers should not suffer from "payment shock" if upward interest adjustments occur.

Moreover, if the ARM is patterned after the FHA ARM there would be no negative amortization, a significant protection for the consumer. When ARMs were first introduced, there were a number of variations that allowed for negative amortization. Unpaid interest was added to the loan balances and borrowers could end up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned. Another significant protection for the consumer is the requirement of the FHA ARM that mandates a written explanation of the features of the ARM. This includes a hypothetical payment schedule that discloses the maximum potential increases in monthly payments over the first five years of the mortgage term.

We urge you to support an ARM for the VA homebuyer as we believe this would provide an added benefit for the veteran. We would be pleased to work with you in establishing a viable ARM alternative under the VA Home Loan Guaranty Program.

ELIGIBILITY OF NATIONAL GUARD AND RESERVE COMPONENTS OF THE U.S. ARMED SERVICES

NAHB strongly supports H.R. 939, legislation to expand the benefits of the VA Home Loan Guaranty Program to members of the Selected Reserve of the Ready Reserve of the Armed Forces (National Guard and Reserve components). Foremost, as we recently saw demonstrated, members of the Selected Reserve of the Armed Forces can be called up to perform the same hazardous duties as members of the Armed Forces on active duty. Also, the VA Home Loan Guaranty Program serves not only as a reward for service rendered, but as an inducement to attract qualified volunteers into our country's military service. The severity of our nation's housing affordability crisis has made the opportunity for homeownership an attractive inducement to military service. Eligibility for the Home Loan Guaranty Program would increase the quality of our National Guardsmen and Reserve Members by enlarging the pool of prospective applicants.

Importantly, expanded entitlement would significantly enhance the financial viability of VA's Guaranty and Indemnity Fund. Selected Reserve veterans are less likely to default on their loan obligations because they are generally older, more mature and better educated than persons on active duty. In addition, they usually remain in their community throughout their military service. The portion of reservists with at least a high school education is 92% versus only 80% for veterans with active duty military service. To participate, Selected Reserve veterans must have served at least six years. During this time, they will have established their regular careers while they earn additional income through their service in the Selected Reserve. Active duty service persons, on the other hand, are generally only receiving their military pay. Recently discharged active duty veterans are usually in the beginning stages of establishing themselves in the work force. Finally, the Selected Reserve veterans would be required to pay an increased indemnification fee and therefore, would not receive an identical entitlement.

ADEQUACY OF STAFFING LEVELS

It is well known that staff shortages in the VA Department's offices throughout the country negatively affect the operation of the VA Home Loan Guaranty Program. Program losses and processing delays could often be avoided if appropriate staff levels were provided.

NAHB believes there is a direct correlation between additional FTEEs and savings to the program through the prevention of foreclosures. The Houston Pilot Servicing Project proves that the cost of additional staff is eclipsed by the monetary savings to the program made possible by the increased number of work hours. During the project period, the average number of Loan Service Representatives was 19.55. (The average number before the pilot program was 10.) The Houston Pilot Servicing Project report stated:

> The Project was successful from a cost/benefit standpoint. Counting only "successful intervention" cases, documented savings due to reduced foreclosures exceed $11,000,000. We believe it is likely that at least an equal number of foreclosures were avoided through VA personal supplemental servicing assistance in cases in which it was not necessary for VA to intervene directly with the loan holder. The savings compare quite favorably with the estimated costs involved in the Project of $310,000 (approximately $290,000 for personnel and $20,000 for equipment).

Clearly, staff shortages cause significant processing delays. In some field stations, we understand that it takes one to two months to process VA guarantees. These VA offices cannot effectively handle their current workloads. If veteran homeowners refinance their loans, as requested by the VA Department, workloads will increase. Loan originations will suffer as a result.

Accordingly, NAHB urges Congress and the Department of Veterans Affairs to provide adequate staff levels.

FISCAL YEAR 1992 BUDGET PROPOSALS

The Department of Veterans Affairs fiscal year 1992 budget proposes several legislative changes to the VA Home Loan Guaranty Program. The Administration's proposed changes to the VA Home Loan Guaranty Program would make it much more difficult for the program to achieve its original mission of assisting our servicemen and servicewomen returning from duty to purchase homes. The proposed changes would weaken key benefits of the Home Loan Guaranty Program, making it much less accessible for the Americans who have served our country. Opportunities for homeownership for our veterans would be greatly diminished if the suggested changes become law. We are gratified that your Subcommittee has wisely rejected the Administration's budget proposals. However, we would like to take this opportunity to state our specific concerns with the proposals. The proposed legislative changes to the VA Home Loan Guaranty Program include:

- Making permanent the .625% increased funding fee currently due to expire on September 30, 1991.

- Including VA's average loss on resale in the determination of the net value calculation.

- Requiring a 2.5% fee and a 10% downpayment for multiple use of the home loan guaranty benefit.

- Merging the Direct Loan and Loan Guaranty Revolving Funds.

Funding Fee Increase

The Administration would make permanent the temporary .625% funding fee increase that is due to expire on September 30, 1991. In order to meet the deficit reduction demands of last year's budget summit, the VA Committees approved a short term .625% increase to the indemnification fee as part of the Omnibus Budget Reconciliation Act of 1990. This was in addition to an increase in the veteran's maximum fee from 1 percent to 1.25 percent that was enacted as part of the Veterans' Home Loan Indemnity and Restructuring Act of 1989.

For six out of the last seven years, the Administration has asked for a fee increase. Each time, NAHB has opposed the increase. Such increases not only dilute the entitlement nature of the program but also raise veterans' housing costs, pushing homeownership out of the reach of many deserving veterans.

This is another piecemeal attempt to erode the entitlement nature of the VA Home Loan Guaranty Program and put it on a self-sustaining, pay-as-you-go basis.

Inclusion of the Department of Veterans Affairs' Average Loss on Resale in Determination of Net Value Calculation

The Administration has once again proposed the inclusion of the Department of Veterans Affairs' average loss on resale in the determination of the net value calculation.

In making a determination as to whether to acquire a property upon foreclosure or to pay the amount of the guaranty, the Veterans Affairs Department must compare the net costs of acquiring the property and reselling it with the cost of paying the guaranty amount. To make this comparison, the Department must first calculate the net value of the property.

If the net value of the property is less than the unguaranteed portion of indebtedness, the Department must pay the guaranty and not acquire the property (a "no-bid"). If the net value of the property is greater than the unguaranteed portion of indebtedness, the Department generally must pay the holder of the loan the amount of the indebtedness and acquire the property.

The Veterans' Home Loan Indemnity and Restructuring Act of 1989 extended the no-bid formula through fiscal year 1991, and prohibited the VA Department from considering any cost of funds in determining the net value of property for purposes of the no-bid calculation.

The Administration's proposed adjustment to the no-bid formula would decrease the net value amount and thereby greatly increase the incidence of "no-bids". The Administration estimates that the number of "no-bids" would double under the new formula.

This attempt to include the average resale loss in the VA's net value calculation is inconsistent with Congressional intent and would discourage lenders from participating in the Veterans Home Loan Guaranty Program. If lenders are reluctant to participate, it will become much more difficult for veterans to obtain loans and become homeowners. NAHB opposes this proposal.

Requirement of 2.5% Fee and 10% Downpayment for Multiple Use

The Administration proposes to require veterans to pay a 2.5% fee and make a 10% downpayment for multiple use of the home loan guaranty benefit. Veterans are now allowed to restore their entitlement, and therefore use the entitlement more than once. This is reasonable and logical, given that in today's mobile society homeowners move approximately every 6 years.

In addition, military personnel are frequently transferred and should not be deprived of the opportunity for homeownership because they are required to relocate in the line of duty.

NAHB opposes this proposal, which we view as another attempt to erode the entitlement nature of the program. Military personnel generally don't receive enough cash compensation to save for a downpayment, and affordable housing is often out of reach. A 2.5% fee and 10% downpayment would be so financially burdensome that continued homeownership would become impossible for some veterans.

This proposal would negate both the benefit and entitlement nature of the program.

Merger of the Direct Loan and Loan Guaranty Revolving Fund

The VA Home Loan Guaranty Program was funded through appropriations from its 1944 inception until 1961. In 1961, the Loan Guaranty Revolving Fund (now the Guaranty and Indemnity Fund) was created to provide funding for the Home Loan Guaranty Program. For over 20 years, the home loan program was self-sustaining.

The Loan Guaranty Revolving Fund was supplemented by the Direct Loan Revolving Fund. If there was a deficit in the Loan Guaranty Revolving Fund, transfers would be made from the Direct Loan Revolving Fund. The Direct Loan Revolving Fund provided monies in areas of the country that were inadequately serviced by mortgage companies. In 1981, the practice of having the Direct Loan Revolving Fund supplement the Loan Guaranty Revolving Fund was terminated.

While we believe that the Direct Loan Revolving Fund previously served a vital purpose, we agree with the Administration that the low level of activity in the fund does not require a separate program. As an administrative matter, we have no objection to the proposal to merge the Direct Loan and Loan Guaranty Revolving Funds.

CONCLUSION

We have worked well in partnership over the years in providing homeownership opportunities for the men and women of the armed services. Congress must continue to provide assistance to veterans so that they will continue to have the opportunity for affordable homeownership.

Thank you for allowing us to present our views. We look forward to continuing to work with your Committee in providing affordable housing both for veterans and military personnel.

STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MAY 2, 1991

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.3 million members of the Disabled American Veterans (DAV) and its Ladies' Auxiliary, I wish to thank you for this opportunity to present our views relative to the Department of Veterans Affairs (VA) Loan Guaranty Program. We also appreciate your requesting our comments on H.R. 939, legislation to expand the Loan Guaranty Program to certain members of the National Guard and Reserves, and H.R. 1384, legislation to provide for a demonstration program with respect to adjustable rate mortgages.

At the outset, Mr. Chairman, the DAV wishes to commend you and the members of the Subcommittee for your outstanding advocacy on behalf of America's veterans. Additionally, we wish to thank you for your efforts in rejecting the Administration's budget proposal which, among other things, would have made permanent the increased funding fee due to expire September 30, 1991 and require a down payment and an increased funding fee for multiple loan guaranty use.

* * *

Mr. Chairman, since its creation in 1944 the VA Home Loan Guaranty Program has permitted more than 13 million veterans to realize the American dream of home ownership. Clearly, this vital VA benefit program has been good for America's economy and has expanded the tax base of nearly every community throughout our nation.

Sadly, Mr. Chairman, over the past decade we have witnessed a tragic increase in loan guaranty defaults, requiring the infusion of more than $4 billion into the loan guaranty revolving fund since 1984. While our nation's economic situation has played a large role in creating these massive loan guaranty deficits, other factors such as short-cited budget policies and faulty loan origination practices are also responsible for the problems faced by the Loan Guaranty Program.

Mr. Chairman, for nearly 40 years the Loan Guaranty Program was self-sustaining, requiring no user fee. DAV believes that with proper management and a sufficient number of employees to administer and regulate this program, it can once again become "self-sustaining."

The Houston Pilot Servicing Project demonstrates beyond a doubt that aggressive loan servicing is cost-effective. As you know, during a 12 month period, from August 1988 through July 1989, this project demonstrated an $11 million savings. Additionally, VA estimates that these savings could be doubled when considering the additional number of foreclosures which were avoided due to personal supplemental assistance which made direct lender intervention unnecessary.

DAV commends the VA on its improved performance in the loan service area and for the positive steps they have taken to assure that VA's Home Loan Guaranty Program is properly managed. We are, however, extremely disappointed, to say the least, with the fact that the Administration's Fiscal Year 1992 budget proposes to slash 114 employees from VA's loan guaranty service. How, in the face of the incredible savings generated by additional FTEE to perform loan servicing, can the Administration justify such a drastic reduction in FTEE?

Mr. Chairman, it is important to point out here that, as a result of Operation Desert Shield/Storm, there will be an additional 200,000 new veterans eligible for VA loan guaranty benefits. It is estimated that this will increase the numbers of new VA loans guaranteed by 25,000 over the next five years.

Mr. Chairman, given the benefits shown by increased loan services and in light of the increased workload generated by our nation's involvement in the Persian Gulf War, DAV believes that employees should not be taken from VA's Loan Guaranty service. To the contrary, we believe that an increase of 150 FTEE is called for if we are to provide timely loan guaranty access to our nation's newest veterans and bring VA's foreclosure problems under control. We must also not forget that proper aggressive loan servicing can save the homes of our nation's veterans.

Mr. Chairman, another area of concern to DAV is the fact that VA lacks the ability to financially assist veterans who have temporary financial problems, causing them to default on their VA guaranteed loans.

DAV believes that Section 15 of H.R. 5002, approved by the U.S. House of Representatives last year, is an excellent way to prevent VA loan guaranty foreclosures. This provision not only will save taxpayer dollars, it will also avoid the emotional pain suffered by those veterans who lose their family home because VA is unable to provide the temporary assistance needed.

Mr. Chairman, we urge you to again introduce and seek the enactment of legislation to provide mortgage foreclosure assistance to our nation's deserving veterans.

H.R. 939

Introduced by yourself, Mr. Chairman, together with Committee Chairman Montgomery, Ranking Minority Member Stump and Mr. Burton, Ranking Member of this Subcommittee, this measure proposes to provide members of the Selected Reserves who have completed six years service, eligibility to VA's Home Loan Guaranty Program.

Mr. Chairman, we have no National Convention mandate with respect to the expansion of the VA's Loan Guaranty Program to Selected Reservists. However, we would like to make a couple of brief comments regarding this proposal.

As this Committee is well aware, Congress has granted an array of benefits and services to our nation's veterans in recognition of their sacrifices while serving in our country's military. While we recognize that members of the Selected Reserves provide a vitally important role in the defense of America, nonetheless, Congress has not afforded these individuals "veteran status." Therefore, these individuals are not granted the same benefits and services afforded to individuals who have served on active duty in the armed forces.

I would like to note here however, that those individuals called to active duty during Operation Desert Shield/Storm for a period of at least 90 days, have recently been granted eligibility to VA Loan Guaranty benefits.

Having stated this, Mr. Chairman, we do recognize that H.R. 939 does make a distinction between those currently eligible for VA Loan Guaranty benefits and members of the Selected Reserves by charging them a higher loan guaranty fee.

H.R. 1384

This measure, introduced by Representative Payne, a former member of the House Veterans Affairs Committee, proposes to:

- establish a demonstration project during Fiscal Years 1992 and 1993, at no fewer than two but not more than ten regional offices, for the purposes of granting adjustable rate mortgages by the VA; and

- requires the Secretary of the VA to report to the Congress, by December 31, 1993, results of this demonstration project and make an annual report with respect to the default rate and any other information concerning loans guaranteed under this Section.

Mr. Chairman, while DAV has no convention mandate relative to this type of financing, we would urge caution. Past problems in the underwriting of VA loans have taught us a valuable lesson -- it does not serve veterans or America's taxpayers well, if we place veterans in homes they cannot afford. Therefore, should the Committee decide to proceed with legislation to provide a pilot program for adjustable rate mortgages, we would urge that the underwriting be based on the maximum chargeable interest rate.

This completes our statement, Mr. Chairman. I would be happy to answer any questions you may have.

NCOA

Non Commissioned Officers Association of the United States of America

225 N. Washington Street • Alexandria, Virginia 22314 • Telephone (703) 549-0311

STATEMENT OF

R. W. "DICK" JOHNSON
DIRECTOR OF LEGISLATIVE AFFAIRS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

ON

H.R. 939 AND H.R. 1384

MAY 2, 1991

Chartered by the United States Congress

Mr. Chairman, the Non Commissioned Officers Association appreciates this opportunity to comment on several issues under consideration by the committee concerning veterans home loan programs. Among the issues under discussion are H.R. 939, a bill that would extend veterans loan eligibility to certain reservists and National Guardsmen and H.R. 1384, a bill allowing for the limited testing of a guaranteed adjustable rate mortgage. NCOA will also take this opportunity to comment on other areas of loan guaranty program operations and funding.

H.R. 939

The association is pleased to offer its full support to H.R. 939. If adopted, the bill will allow members of reserve and guard components who have completed six or more years of service to participate in the veterans loan guaranty program.

Until recently, the total force concept espoused by the armed forces was an untested theory of regular and reserve force integration. Notwithstanding years of organizational efforts to achieve a balanced distribution of combat and combat support missions between regular and reserve components, many people believed there would be little chance reserve units would ever be activated to participate in military operations. They were wrong.

Beginning with efforts to rescue American medical students and other US citizens from Grenada, reservists established themselves as an integral part of the armed forces. During that operation reserve components provided military police, airlift and combat air support. In subsequent operations in Panama, reserve components participated in so many missions their contributions could not be distinguished from those of regulars. Most recently, the US witnessed the most extensive call-up of reserve components in 50 years.

During operation Desert Shield/Desert Storm more than 235,000 reservists were activated to participate in the liberation of Kuwait. Many are still serving on active duty. And, above all else, they have demonstrated in terms that can produce no doubt, the US will never again participate in major military operations without the participation of reserve forces.

NCOA believes such service should be recognized and therefore strongly supports the expansion of the loan guaranty program as proposed in H.R. 939.

H.R. 1384

NCOA opposes the passage of H.R. 1384, a test program for adjustable rate mortgages. This type of loan was created several years ago during a period of high inflation and high home prices to serve a very specific and limited segment of the homebuying market. Known colloquially as YUPPIE loans, they were originally designed to allow the young, upwardly mobile, college graduate, professionals an opportunity to enter the housing market at a level beyond their current means but within their anticipated means. In other words, adjustable rate mortgages are designed to allow people to overspend and overextend financially on home purchases in essence mortgaging away future increases in personal income. Unfortunately, too few people truly understand how dramatically a mortgage payment can change under an adjustable rate mortgage.

For example, an $85,000 30-year mortgage originally financed at nine percent annual interest would require a principle and interest payment of $684 monthly. If adjusted by a mortgage cap of two percent per year, the payment could rise to $809 in just one year. That is a monthly increase of nearly 18.5 percent, an amount far likely to exceed income increases of most homebuyers. And, it would be a useless if not dangerous option extended to veterans or widows living on a fixed income.

funding support the Guaranty and Indemnity Fund is receiving from the government. It was our understanding when the fund was created that federal contributions would be made in cash thus allowing the fund to benefit from interest earnings on all deposits. Instead, the federal government has committed its obligations to the fund in budget authority. While this budget authority acknowledges governments obligation to the fund, it is not investable. Accordingly an unfunded liability is building which may jeopardize the future of the program as large federal payment become due in the out-years.

Additionally, NCOA is concerned that administration proposals and legislative changes may deprive the program of participation by veterans who can be counted upon to repay their loans. Complexities added to the determination of fees last year add to confusion about the value of the program and can discourage participation. Increasing fees always discourages participation and can drive financially responsible veterans away from the program to commercial loans. The currently pending administration proposal to increase fees and down payment requirements for multiple users will certainly drive away participation of veterans who have already demonstrated their financial ability and responsibility for a mortgage loan. Ultimately, if enacted, this proposal will have an adverse impact on the ability to build program assets. We urge the committee to explore alternatives to the current fee schedule and down payment requirements in favor of creating a benefit structure that is more easily understood by veterans.

Finally, NCOA observes for the committee that after each period of conflict since WWII veterans have been given free home loan guarantees as part of their G.I. Bill. The association, perhaps naively, expected similar treatment for veterans of the Persian Gulf war. It has become painfully obvious that many of the benefits traditionally associated with wartime service will not be available to Persian Gulf veterans. We therefore urge the committee to explore the possibility of making free home loans available to them.

Thank you

PVA
PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT OF

CLIFTON E. DUPREE, ASSOCIATE LEGISLATIVE DIRECTOR

PARALYZED VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON HOUSING, AND MEMORIAL AFFAIRS

OF THE

HOUSE COMMITTEE ON VETERANS' AFFAIRS

CONCERNING

DVA HOME LOAN GUARANTY PROGRAM

AND

H.R. 939
"To provide eligibility to members of the Selected Reserve
for the veterans home loan program"

and

H.R. 1384

"To provide for a demonstration program by the Secretary of
Veterans Affairs with respect to adjustable rate mortgages"

MAY 2, 1991

Mr. Chairman and Members of the Subcommittee, on behalf of Paralyzed Veterans of America (PVA), I want to thank you for inviting us to testify today.

PVA appreciates this opportunity to comment on the operation of VA's Home Loan Guaranty Program and H.R. 939 which would provide home loan program eligibility to the members of the Selected Reserve and H.R. 1384, which would allow a pilot program using adjustable rate mortgages for the purposes of guaranteeing loans in a manner similar to the manner in which the Secretary of Housing and Urban Development insures adjustable rate mortgages under section 251 of the National Housing Act.

I want to begin by saying PVA supports both legislative initiatives and by conveying our gratitude for the time and effort you and committee staff have devoted to these programs.

A short background of the program describing the reason for the establishment of the home loan benefit is necessary when evaluating the future of the program.

The VA Home Loan Guaranty Program was enacted in 1944 by Congress to assist veterans returning from World War II to purchase housing. Returning veterans did not have the opportunity, while serving in the Armed Forces, to save for a downpayment for a home, nor were they able to establish a credit rating to enable them to get financing for a new home. Congress responded by passing the Servicemens Readjustment Act of 1944, so that all veterans returning home could have the opportunity to be a homeowner.

The existence of a viable benefit program to assist veterans in purchasing homes remains extremely important to the members of our organization. Limited to accessible housing in an economy which has seen the cost of homes and construction more than double over the past decade, individuals using wheelchairs are especially vulnerable in the national housing market and regional recessions such as that experienced in the oil producing states in the 1980s. VA's Home Loan Guaranty Program has, without question, enabled many paralyzed veterans to become home owners.

Mr. Chairman, for that reason, we take special interest in the well-being of this important benefit program. PVA continues to believe that the VA Home Loan Guaranty Program is an effective and necessary benefit program for veterans.

VA's offer of a fully guaranteed mortgage loan, with no downpayment requirement, has, for over forty-six years, enabled more than twelve million American veterans to purchase and maintain a home. The program is administered in 48 of the 59 regional offices. A veteran goes to a lender to get a loan. DVA guarantees a certain percentage of the loan to the bank in case it should go to foreclosure. The current guaranty is 50 percent for loans under $45,000; 40 percent for loans above $45,000 up to $144,000 with a maximum guaranty amount of $36,000; and 25 percent for loans above $144,000 up to $184,000 with a maximum guaranty amount of $46,000.

It should be noted that mortgage bankers account for approximately 90 percent of DVA guaranteed loans. DVA regulations allow certain bankers to underwrite loans on an automatic basis, without DVA prior approval. Approximately 85 percent of all DVA loans are underwritten automatically.

Mr. Chairman, we believe it is certainly an appropriate time to consider legislation which would extend authorization for members of the Selected Reserve to participate in the home loan program. The Reserve forces have taken on new importance to the active armed forces over the last few years as shown by their outstanding performances in Operation Desert Shield/Desert Storm. If they can serve in the Persian Gulf to ensure freedom in the world, the least we can do is extend this overdue and well-deserved benefit.

The adjustable rate mortgage (ARM) has become commonplace in the home loan market. Currently, DVA is the only major mortgage market participant without an ARM program. We believe it is only appropriate for the DVA to provide a demonstration program utilizing adjustable rate mortgages to make the program fully responsive to market developments. We believe, however, that to start, the DVA demonstration ARM program should be conservative. There should be limits on yearly interest rate increases, as well as a maximum interest cap over the life of the loan, granting certain protections to the veteran program participants. Tailoring an ARM program to those guidelines used by the Federal Housing Administration (FHA) could be established by DVA. The FHA adjustable rate mortgage program allows interest rates to escalate no more than one percent per year with a cap of five percent over the life of the loan.

The demonstration program, as authorized by H.R. 1384, would be carried out during Fiscal Years 1992 and 1993, by at least two, but not more than 10 VA Regional Offices for two years in a manner similar to FHA's adjustable rate mortgage program. The Secretary would submit a report to Congress no later than December 31, 1993, containing a description of the results of the implementation of the project carried out under this provision. The legislation would also require the Secretary to furnish a yearly report with respect to the default rate and other information concerning the loans guaranteed by this provision. We believe these reports are necessary for the Committee and the Congress to properly monitor the implementation of the demonstration program.

Legislative Proposals from the Administration

PVA opposes legislative proposals pertaining to the VA Home Loan Guaranty Program contained in the Administration's Fiscal Year 1992 budget recommendations which would restrict veterans' participation in the program by imposing downpayments, or by increasing user fees. Such additional burdens on the veteran homebuyer can only decrease participation in the VA program and eventually further erode the integrity of the Guaranty and Indemnity Fund. We applaud your efforts, Mr. Chairman, and the work of this Subcommittee providing immediate and strong opposition to these proposals. We continue to believe you have provided, through Public Law 101-237, a framework within which the Department of Veterans Affairs can potentially operate a stable and solvent program.

VA Management Initiatives

In addition to ensuring credit worthiness, VA management must provide adequate loan servicing, accurate appraisals, improved marketing of properties, and effective regulation and oversight of lenders. Such policies, coupled with a sufficient level of FTEE, to provide adequate service, oversight and counseling for veterans, should restore financial solvency to a program which has served our Nation's veterans and active duty members for over four decades.

Ultimately, VA's ability to incorporate internal controls and policies aimed at preventing bad loans and foreclosures will determine the degree of success. We encourage this Subcommittee to engage in aggressive oversight of the Home Loan Guaranty Program, and, by so doing, ensure that the veterans who have served this Nation will receive the best service the VA can offer.

Any change to the current program must ensure that the fundamental focus of the program - to assist eligible veterans in obtaining mortgage credit at lower interest rates without a down payment and to include adjustable rate mortgages for the purchase of existing homes and construction of new homes - remain fully intact. The program must ensure that all eligible veterans continue to fully realize the same benefits which they are receiving today.

In conclusion, Mr. Chairman, PVA looks forward to working closely with the Subcommittee and staff to secure passage of legislation that would bring equity to the Home Loan Guaranty Program. Only through a combination of improved ADP systems, the restoration of sufficient funding and FTEE, and management initiatives that ensure every job function contributes to the improvement of service to the veteran, will VA be able to maintain a stable Home Loan Guaranty Program.

Mr. Chairman, that concludes my testimony. I will be happy to answer any questions you may have.

STATEMENT OF

DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM AND RELATED LEGISLATIVE PROPOSALS

WASHINGTON, D. C. MAY 2, 1991

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the 2.9 million members of the Veterans of Foreign Wars of the United States and its Ladies Auxiliary, I wish to sincerely thank you for inviting us to take part in today's important review of the operation of the VA Home Loan Guaranty Program. The VA Home Loan Program is one of the most beneficial as well as successful veterans programs in existence today. It has assisted over 13 million veterans in achieving the American dream of home ownership and has also proven to be of immeasurable value to the American economy through its contributions to the banking and construction industries.

Today's hearing is to address the overall operation of the program as well as examining legislative proposals to expand the loan guaranty program to certain members of the National Guard and Reserves, H. R. 939, and a legislative proposal to provide for a demonstration program with respect to adjustable rate mortgages, H.R. 1384.

With respect to the current operation of the VA Home Loan Program, the VFW is not aware of any major problems or discrepancies. It is our understanding that the program is operating as it should, and we are not aware of veterans suffering inordinate delays in the processing of their certificates of eligibility or the VA guaranty itself.

The effect of federal credit reform on the VA Home Loan Program has yet to be seen. Quite frankly, it is the VFW's assessment at this time that what the potential impact of credit reform on the program or, indeed, what exactly credit reform even constitutes for the VA Home Loan Program is so unclear and ill-defined that we are unable to utter a verdict one way or the other. I can here only reiterate the VFW's position on credit reform in its first manifestation a couple of years ago when an actual appropriation would have been required to stand against potential losses as well as an Administration estimate of federal subsidy value. This form of "credit reform" would have completely hobbled the operation of the program. It was both unjust and unwise, and held the potential to completely destroy the VA Home Loan Program. Thus, the VFW will anxiously monitor the implementation of the new credit reform proposal.

Next under discussion is H.R. 939, legislation to expand the Loan Guaranty Program to certain members of the National Guard and Reserves. The VFW views this legislative initiative as being a well-intentioned attempt to further strengthen the VA Home Loan Program by opening it to a group of individuals who in some cases enjoy a relatively higher degree of financial strength and stability than do veterans of the active duty armed forces who are currently eligible to participate in the program. The VFW would point to the fact, however, that the VA Home Loan Program was originally established and continues to function as a benefit and as compensation to veterans of the active duty military who have sacrificed years of educational growth and employment opportunities to serve their country. The VA Home Loan Program is intended to assist these active duty veterans in making up for lost time and earnings and place them on a more equal footing with their contemporaries in the civilian sector who did not give up a number of their most productive years to serve in the active duty armed forces. Under current law members of the Selected Reserve as well as the National Guard who are federalized and who served a period of 180 days in the active duty armed forces—or 90 days during certain periods of war--are already deemed eligible for participation in the VA Home Loan Program. Thus, only those who have not met this relatively small active duty requirement are not eligible for a VA guaranteed loan.

While the VFW agrees that from a financial point of view it does indeed make sense to open up the program to members of the National Guard and Selective Reserve who because of their not having given up a number of years in active duty military service are relatively better off financially. But from the persepctive of the true purpose of the program as well as the question of equity and fairness to the veterans of active duty military service, it would not be correct. The VFW is a strong supporter of the VA

Home Loan Program and we very much wish to see it strengthened and improved. But we also believe that it must remain a veterans benefit—recompense for years and opportunities sacrificed on behalf of the national good. Therefore, we object to this legislative proposal.

Last under discussion today is H.R. 1384, legislation to provide for a demonstration program with respect to adjustable rate VA mortgages. The VFW has in the past, and continues to object to the implementation of Adjustable Rate Mortgages (ARMs) within the framework of the VA Home Loan Program. We view them as being far too unwieldy and complex, posing an unsatisfactory degree of uncertainty and financial risk to both veterans and the VA Home Loan Program.

Even now, home owners who have adjustable rate mortgages are frantically endeavoring to have them converted to standard fixed rate mortgages since they now present a far better value than an ARM. Additionally, along with the problems always inherent in accurately estimating future monthly payment rates, there is a high incidence of miscalculation—in the bank's favor--with respect to the adjustments that are made in ARMs to compensate for rising or decreasing interest rates. Realistically, there is no way that the average home owner—or, for that matter, even the extraordinary home owner--is able to determine whether he, or she is being treated fairly by a lending institution. ARMs and the financial calculations out of which they exist are simply too complex.

With this in mind, the VFW can envision no particular advantage to establishing a pilot program for adjustable rate VA mortgages. While it is even possible that, on a localized basis, ARMs may appear to be an attractive means of financing, in some cases, they remain in our view a bad idea for the relatively long-term, nonspeculative home loan financing which is characteristic of the program.

Mr. Chairman, once again on behalf of the VFW's entire membership I wish to thank you for inviting us to participate in today's important hearing. The VFW remains committed to the well being and improvement of this vital veterans benefit. I will be happy to respond to any questions you may have a germane resolution is appended to this statement.

Resolution No. 747

VA HOME LOAN GUARANTY PROGRAM

WHEREAS, VA Home Loan Guaranty Program is one of the most popular and beneficial programs available to veterans; and

WHEREAS, the wide use of this program is evidenced by the fact that over 13 million loans have been guaranteed to date in an amount exceeding $300 billion; and

WHEREAS, loan origination fees have been enacted and subsequently increased in an effort to remedy the ailing revolving fund; and

WHEREAS, constructive changes have been implemented or proposed in the VA Home Loan Guaranty Program, such as granting the Secretary the authority to (a) independently set loan interest rates; (b) improve the formula for establishing the loan guaranty percentage/maximum amount; (c) provide mortgage payment assistance to avoid foreclosure; and (d) amend VA foreclosure policy to enhance VA Loan Guaranty Revolving Fund, hence strengthening the program; and (e) provide indemnification against debt to VA in the event of foreclosure; now, therefore

BE IT RESOLVED, by the 91st National Convention of the Veterans of Foreign Wars of the United States, that legislation be introduced that will serve to maintain VA Home Loan Guaranty Program as the most viable and desirable means of home financing for veterans; and

BE IT FURTHER RESOLVED, that the Veterans of Foreign Wars vigorously opposes any effort to further increase the current loan origination fee or eliminate VA established loan interest maximum, and encourages the Secretary of the Department of Veterans Affairs and other concerned parties to actively assist veterans in acquiring and retaining their homes during economic crisis.

Adopted by the 91st National Convention of the Veterans of Foreign Wars of the United States, held in Baltimore, Maryland, August 17-24, 1990.

Resolution No. 747

Statement of Major General Evan L. Hultman, AUS (Ret.), Executive Director, Reserve Officers Association of the United States before the Subcommittee on Housing and Memorial Affairs of the House Veterans Affairs Committee regarding legislation to expand the Loan Guaranty Program to certain members of the Guard and Reserve--2 May 1991.

Mr. Chairman and Members of the Committee:

On behalf of the 115,000 Reserve Officers Association members from each of the uniformed services, I appreciate the opportunity to present to the committee the association's views on legislation to expand the VA Loan Guaranty Program to certain members of the Guard and Reserve. Because ROA does not have a position on adjustable rate mortgages, I will direct my comments only toward H.R. 939.

First, I want to commend you, Mr. Chairman, for introducing H.R. 939 and the many members of the subcommittee who are supporting the legislation as cosponsors. ROA believes that the bill would be good for the VA Loan Guaranty Program and good for Reservists and thus national security. But before I comment on the legislation and its importance, I would like to reflect on the Guard and Reserve's contribution to the Total Force as exhibited during Operation DESERT STORM.

Personnel from all of the Reserve components were quick to volunteer for Operation DESERT SHIELD, and by August 22, the date on which the President authorized the involuntary activation of Selected Reserve units and individuals, over 10,000 volunteers from all of the Reserve components were serving on active duty. Volunteers from the Reserve components provided many critical skills.

There were roughly 540,000 military personnel in the Persian Gulf when the ground war began. Nearly 106,000 of those deployed to the gulf area were members of the National Guard and Reserve, including the Coast Guard--about one fifth of the forces deployed. A total of about 228,000 Reservists were ultimately activated in support of Operation DESERT STORM.

In addressing the Guard and Reserve contribution to Operation DESERT STORM during a recent Senate hearing, the Assistant Secretary of Defense for Reserve Affairs, the Honorable Stephen M. Duncan, testified: "...there can be no doubt that both the call to active duty and the performance of the National Guardsmen and Reservists who have served in connection with that conflict, have been marked by extraordinary success."

In 7 February testimony, the Chairman of the Joint Chiefs of Staff used the word "magnificent" in describing the contributions of the Reserve components to Operation DESERT STORM. On 6 March, the Commander-in-Chief of Forces Command told Congress that the performance of Guardsmen and Reservists was "one of the major success stories of the entire operation."

In his address to the Congress on 6 March, President Bush declared that "...this victory belongs...to the regulars, to the Reserves, to the National Guard. This victory belongs to the finest fighting force this nation has ever known in its history."

When Secretary Duncan was asked in a recent Senate hearing what effect the call-up would have on retention of Reserve component members, he responded that the success of the Reserve forces and the Total Force concept was well documented, but said that like a history book, "the final chapters have yet to be written."

By your consideration of legislation that would extend VA Home Loan eligibility to Selected Reservists who have completed six years of service, you are helping to write "the final chapters" of a highly successful U.S. military operation. An overwhelming majority of Reservists responded willingly to the call to active duty, but the call-up did disrupt lives and in many cases caused real economic hardship. Many Reservists will be reevaluating their participation in the Reserve components on the basis of their DESERT STORM experience. Whether or not members of the Guard and Reserve continue to serve in the Reserve components depends in part on the relief and benefits that are made available to them. Their perception of how much their service is appreciated is sometimes as important as the actual benefit, per se.

The Congress, and members of the Veterans Affairs Committee in particular, is to be commended for its swift response to the needs of the men and women who served with such distinction in the

Persian Gulf conflict. The Veterans Affairs Committee was instrumental in the swift passage of "Amendments to the Soldiers' and Sailors' Civil Relief Act" (H.R. 555) and the "Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act of 1991" (S. 725). The committee has also passed the "Uniformed Services Employment and Reemployment Rights Act of 1991" (H.R. 1578). While H.R. 939 is not limited to Persian Gulf War participants, expanding the eligibility for VA Home Loans to Selected Reservists with six years of service provides a benefit important to members of the Guard and Reserve. This legislation, like that cited above, recognizes the importance of providing relief and benefits as incentives for Reservists.

Secretary of Defense, Richard Cheney, has said that Operation DESERT STORM has "vindicated" the Total Force policy. The outstanding performance of Guard and Reserve personnel in DESERT STORM, coupled with the fact that they can provide military capabilities for less, mandate that we will continue to need Reservists in significant numbers.

The provision of benefits as incentives to recruit and retain members in the Reserve components may be more critical than ever before in our history. The broad-based interest that the ROA members have exhibited in VA Home Loan eligibility suggests how important the expansion of the loan program would be as an incentive to attract and retain men and women in the Reserve components. Attached is a copy of a current resolution, adopted by the Reserve Officers Association at its Mid-Winter Conference in January, supporting the extension of VA Home Loan eligiblity to Reservists with six years of service.

In addition to providing Reservists an important incentive, ROA believes, as was earlier indicated, that expanding VA Home Loan eligibility to more Reservists would be good for the Guaranty Loan Program.

In his statement on the House floor, 16 July 1990, when this bill was considered in the 101st Congress, the bill sponsor, Chairman Harley O. Stagger, Jr. said: "It is expected that Reservists obtaining loans guaranteed by the Department of Veterans Affairs would be better credit risks than recently discharged veterans. They are, generally, an older, more mature and more stable group with long-time civilian job histories. Many have probably already owned a home and are familiar with the costs and responsibilities of homeownership. Therefore, this group may help to financially stabilize the program through an influx of loan fees with fewer claims to be paid on their behalf." Mr. Staggers then commented on the origination fees provided in the legislation, which are higher for Reservists than for veterans and active duty members.

I agree fully with Mr. Stagger's and can only emphasize that which he has stated. Reservists do tend to be dependable, solvent individuals who would only add to the stability of the guaranteed loan program.

In conclusion, I would like to quote from the FY90 "Report of the Reserve Forces Policy Board:

> Today, the National Guard and Reserve are full partners with the active components under the Total Force Policy. The efforts made over the last decade to strengthen the Reserve components have paid the greatest dividend of all--deterrence of conflict and reductions of tensions between the major powers of the world. During this decade, Reserve component units have been integrated into virtually all theater operational plans. Large-scale combat operations can not be successfully conducted without Reserve components which contribute a significant portion to combat, combat support, and combat service support elements. The increased involvement in operations during fiscal year 1990 has demonstrated that Reserve component involvement in contingency scenarios is no less essential, especially in early mobilization support and reinforcement roles. Since the implementation of the Total Force Policy, the Reserve components have achieved unprecedented levels of capability and readiness, which have been validated by their successful response to recent operational contingencies.

You deserve much of the credit for the highly capable Reserve forces and the success of the Total Force policy. The Congress has provided both policy and the resources needed to increase Reserve component readiness.

The "Report of the Reserve Forces Policy Board" documents that the "weekend warrior" has clearly been replaced by an integrated military professional. Now is the time to recognize the changing role of the Reservist and provide him or her an entitlement commensurate with the expanded responsibility.

This subcommittee has the opportunity to approve legislation which both provides a well-earned and needed incentive for members of the Reserve components and which would make the VA Guaranty Loan program more solvent--it is a win-win measure.

Thank you for your responsiveness to the needs of Reservists and for providing me this opportunity to comment on this important benefit. I will be happy to respond to any questions that you might have.

Resolution No. 91-15
(Veterans)

RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES

VA Home-Loan Eligibility for Reserve Personnel

WHEREAS, the role of the Reserve components has grown significantly in recent years as a crucial part of the Total Force, and congressional initiatives would further increase that role; and

WHEREAS, Reservists are eligible for home loans guaranteed by the Department of Veterans Affairs only if they have served at least 181 consecutive days on active duty; and

WHEREAS, the availability of VA home loans would provide an important incentive to attract and retain highly qualified personnel to serve in the Reserve components--a need that has grown and may become more critical with the call-up of Reservists in response to the Persian Gulf crisis; and

WHEREAS, Reservists would help to financially stabilize the VA loan program through loan fees with fewer claims to be paid on their behalf;

NOW, THEREFORE, BE IT RESOLVED, that the Reserve Officers Association of the United States, chartered by Congress, urge the Congress to adopt legislation which would expand the VA home-loan program to include members of the Reserve components who have served a total of at least six years in the Selected Reserve or are called to active duty in support of operation DESERT STORM.

Adopted by the National Council
23 January 1991

Attest: Evan L. Hultman
Evan L. Hultman
Major General, AUS (Ret.)
National Executive Director

STATEMENT BY

LIEUTENANT GENERAL LA VERN E. WEBER (RET.)

of the

NATIONAL GUARD ASSOCIATION OF THE UNITED STATES

to the

Subcommittee on Housing and Memorial Affairs

of the

House Committee on Veterans Affairs

2 May 1991

INTRODUCTION

It is a pleasure to represent the more than 56,000 members of the National Guard Association of the United States before this Subcommittee to discuss one of the most popular benefits provided to our nations' military veterans. The veterans' home loan benefit, second only to education benefits, has had a tremendous impact on the quality of life of at least three generations of military personnel and their families.

This Association commends the Congress for the creative management of this significant program. We also thank this Subcommittee for taking the lead on this issue in the last Congress and securing passage of a bill by the House that would grant Selected Reserve personnel access to veterans home loan benefits. Unfortunately, the legislative session ended before action was taken by the Senate.

The home loan program was created in the 1940s primarily as a readjustment program for military personnel returning to civilian life from combat duty. Beginning with amendments as early as 1945, the program has been expanded to increase veteran participation and to accommodate a wider range of housing options. Over the years the program has evolved into a much valued compensation program for service in the military forces. Also, the program has been a supporting pillar to this nation's economic growth since the mid 1940s.

ACTIVE DUTY REQUIREMENT

While each of the veterans' benefit programs established by Title 38, U.S.C. has a specific criteria for eligibility, the initial criteria is established in Section 3103A, Title 38, U.S.C. An integral part of the definition of a veteran for any or all of the programs is active duty service.

During the Korean War and the Vietnam Conflict, eligibility for veterans' home loans required 90 consecutive days of active duty. During the post-war periods the requirement was raised to 181 days of active duty service. Effective in 1981, the requirement became 24 consecutive months of active duty service in order to be defined as a veteran.

ELIGIBILITY OF GUARD PERSONNEL

During the era of the all-volunteer force, the National Guard has aggressively recruited prior service personnel. Most prior service personnel meet the definition of a veteran and are entitled to the full array of benefits.

The Gulf War service has expanded the number of veterans by as many as 228,000 Guard and Reserve personnel. The Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act of 1991, P.L. 102-25, passed by this Congress returned to the wartime precedent by making all members with active duty service of 90 days or more eligible for housing benefits.

Even with these two groups, a sizeable portion of the National Guard force still does not meet the requirement for consecutive active duty service. Until the early 1970s and the development of the Total Force Policy, there were few requirements and only limited opportunities for extended periods of active duty for National Guard members. While training opportunities and school requirements have vastly increased under the Total Force Policy, the Selected Reserve remains primarily a part-time force with the exception of the small full-time support force of Active Guard/Reserve (AGR) personnel.

TITLE 32 AGR SERVICE

The Active Guard/Reserve program has personnel serving on full-time duty under Title 10, U.S.C., and Title 32, U.S.C. The objective of full-time support is to enhance the wartime readiness of reserve forces and allow units to perform the expanded missions they have been assigned under the Total Force Policy. The AGR program standards and qualifications mirror the active component. Individuals in the Title 10 and Title 32 programs perform identical duties, but major differences exist in benefits and entitlements administered by the Department of Veterans Affairs. Personnel serving on full-time National Guard duty under Title 32, U.S.C. are excluded from many programs to include home loans.

The Sixth Quadrennial Review of Military Compensation (6th QRMC) evaluated the entire range of compensation for the National Guard and Reserve. The final 6th QRMC report recommended giving the "same status, with the same consequences for title 38 purposes," to AGR members serving on full-time National Guard duty (other than for training only) as personnel on active duty.

PROPOSED LEGISLATION

The provisions of H.R. 939 would resolve several situations for National Guard members. The bill would extend veterans' home loan eligibility to all personnel with six or more years of Selected Reserve service. This action recognizes the dedicated service performed by members of the Guard and the sacrifices that the citizen-soldier faced in serving their nation. Further, H.R. 939 removes from this program a basic inequity of ineligibility for Title 32 AGR service. Although, Guard and Reserve personnel would be subject to a slightly higher fee schedule than other participants, they would gain access to a valuable entitlement.

The veterans' home loan program has encountered some financial problems because of the fluid nature of American society, particularly the military. Mortgage defaults and foreclosures have hurt the home loan program. The current banking crisis has only exacerbated the problems.

The National Guard force represents a stable element in society. It is this very stability that is the foundation for the quality performance of Guard units. National Guard personnel are fully integrated in their communities, sometimes for generations. Infusion of Guard and Reserve personnel into the program will have a positive effect. The fee schedule proposed will further stabilize the program.

The current state of the economy and the housing market are tenuous at best. The National Guard Association would not purport to be an expert in financial management. However, the proposal in H.R. 1384 to initiate a demonstration project on adjustable rate mortgages appears to be a sound way to explore enhancing the home loan program.

The loan program is intended to allow them to make an investment in a home even when they are faced with frequent permanent change of station moves and to assist military personnel in adjusting to civilian life. A large portion of the military is enlisted personnel with limited financial resources. Retirees are another primary user of the program. They often are dealing with a fixed income. Any program that will enhance the ability to realize the American dream of owning a home and reduce the costs of doing so should be explored.

SUMMARY

The Congress has historically examined ways of expanding and further stabilizing the pool of personnel eligible for veterans benefits. The bill, H.R. 939, is a continuation of that tradition. The National Guard Association fully supports your efforts to give National Guard personnel access to the veteran's home loan program.

The National Guard Association supports recognition of the value of Guard service and equity in determining eligibility for benefits. The Guard and Reserve make a major contribution to the defense of this nation, as demonstrated by Operation DESERT SHIELD/DESERT STORM. National Guard service represents a cost effective way to maximize defense capability. It also preserves trained assets in the force capitalizing on training investments. Authorizing National Guard and Reserve participation in the veterans' home loan program makes a tangible contribution toward strengthening America. In addition, it helps preserve a valued benefit program.

STATEMENT OF
MASTER SERGEANT
MICHAEL P. CLINE

EXECUTIVE DIRECTOR
ENLISTED ASSOCIATION OF THE NATIONAL GUARD
OF THE UNITED STATES

BEFORE THE
VETERAN'S AFFAIRS SUBCOMMITTEE
ON HOUSING AND MEMORIAL AFFAIRS

2 MAY 1991

Mr. Chairman and distinguished members of the Subcommittee:

I am honored to present my views to the Veterans Affairs Subcommittee on Housing and Memorial Affairs with regards to H.R. 939. It seems that the climate on Capitol Hill has never been better where issues that affect our membership are concerned. We appreciate all of your efforts, and feel privileged to be a part of shaping such positive legislation.

As I am sure you are aware, our Association represents the Enlisted men and women of the Army and Air National Guard. We feel that legislation such as H.R. 939 can help to further improve the lives of our members. Offering more benefits to these dedicated "citizen soldiers" only makes them feel that all their sacrifices do not go unrecognized. These incentives help boost the morale of our Guardsmen and Airmen, motivating them to be more dutiful and responsive to their respective military occupations. Whenever a force is highly motivated, that force is almost inevitably going to be better prepared to face the tasks assigned to them. Anytime a part of the Armed Forces is better prepared for duty, the security of our Nation is further solidified.

We at EANGUS would like to give our full support to H.R. 939. We feel that there are four areas that will benefit from the passage of this bill.

First, the National Guard and its members will both benefit from the introduction of H.R. 939 into Public Law. The National Guard as a whole will benefit from the possibility of increased retention after an initial 6 year enlistment, because many members may wish to apply for this benefit. This added longevity of service would not only add more experienced troops to our forces, but will also add to the stability of the Guard as a whole. The reason for such retention can be attributed to the attractive nature of the interest rates the Department of Veterans Affairs offers with its Home Loan package.

Second, the individual Enlisted soldier can greatly benefit from this proposed amendment. Many Guardsman and Reservists can now take advantage of an opportunity not previously afforded them. These individuals will be able to improve the quality of their lives by utilizing this Loan Program. New homes can be purchased and older homes and be restored. These occurrences might not have ever been possible without the opportunity that this legislation now offers.

Third, not only will the Guard and its members be helped by this statute, but the Department of Veterans Affairs (DVA) itself can greatly benefit from its passage. National Guardsmen and Reservists who apply for this benefit will automatically bring a much needed increase in revenues to the DVA. These revenues can help to stabilize the financial position of the Veterans Home Loan Program. We feel that such stability is desperately needed to ensure the outright survival of the program itself.

Finally, our "hometown" soldiers live and work in small communities throughout the country. These cities and towns will also reap the benefits of the Loan Program. Through things like construction, materials, and labor, added revenue brought to such places can only help to further the economic stability of our Nation's heartland.

There is one more issue that we feel needs to be addressed. There is a major inequity in the benefits afforded to Title 32 AGR (Active Guard/Reserve) Forces. The Veterans Home Loan Benefit is not offered to the AGR soldier, but the active duty soldier undoubtedly receives it. The Active Guard/Reserve is a vital part of our Nation's Armed Forces. These individuals are responsible for keeping the Reserve Component operating on a full-time basis. Because there is no difference between the amount of time an Active Duty soldier and an AGR soldier spends serving their country, we feel that the Active Guard/Reserve should receive the Veterans Home Loan benefit, just as the Title 10 Forces do.

With regards to H.R. 1384, to provide for a demonstration program to investigate the possibility of implementing adjustable rate mortgages, we have no objections to this proposal. Given the uncertainty of the adjustable rate mortgage system, we will be very interested to find out if this system would also benefit our members.

I would like to thank you for the opportunity given me to present the views of the Enlisted Association of the National Guard. We are pleased to be recognized by your Subcommittee for our continuing efforts in obtaining benefits for the men and women of the National Guard. I will be happy to take any questions you may have at this time.

STATEMENT BY
RADM LESTER ROBERT SMITH, USNR (RET)
PRESIDENT
OF THE
NAVAL RESERVE ASSOCIATION
TO THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERAN'S AFFAIRS
2 MAY 1991

Rear Admiral Lester Robert Smith
United States Naval Reserve (Ret)
National President

Admiral Smith was commissioned from the Naval Aviation College Program (Flying Midshipman). He served 39 years in the U.S. Navy and Naval Reserve His duties included two Korean deployments with Fighter Squadron 52 (VF-52) flying 132 combat missions. In 1954, while still assigned to VF-52, he flew the part of Lt. Harry Brubaker (for Bill Holden) in the Paramount Pictures movie, "The Bridges at Toko-Ri." After graduating from the Naval Test Pilot School (Class XIII), he was an experimental test pilot at the Flight Test Division of the U.S. Naval Air Test Center. His next assignment was to the NROTC unit at Georgia Tech, where he completed degrees in Bachelor of Aeronautical Engineering and MS (AE) with highest honors.

Among his numerous assignments in the Naval Reserve, Admiral Smith has had six tours as Commanding Officer: VF-701 (now VF-201); and augment units for the Naval Air Systems Command Headquarters, two Naval Air Stations units, the VTU andtheCOMNAVAIRLANTstaff.HewasCommander,NavalReserveReadinessCommand, Region Eleven from 1981 to 1984. That command comprised fourteen Naval Reserve Centers in Northern Texas, Oklahoma, and new Mexico, with 5,000 Naval Reservists assigned.

Admiral Smith was employed with Chance Vought Aircraft, and successor companies, for 29 years. He held various positions including, Chief Project Engineer-F8U Airplanes, and Director-A-7 Programs. He retired from LTV in 1987.

More recently, he was Vice President, Program Development for Turbomeca Engine Corporation, the U.S. subsidiary of Turbomeca, France. Turbomeca manufactures turbo-shaft engines, primarily for helicopters.

Admiral Smith is now a consultant to the Aerospace Industry.

Rear Admiral Smith is active in numerous organizations. He is Chairman of the Military Affairs Committee for the Greater Dallas Chamber of Commerce; Immediate President and Director of the Dallas Military Ball Corporation; and Director of the Greater Dallas Reserve Officer's Association.

He is married to Carmen DeLuca of New Kensington, Pennsylvania. They have a daughter Mrs. Sherri Neumeier and two grandsons.

REV. 3/19/91

Mr. Chairman, distinguished members of the Committee, it is a privilege to have this opportunity to present the views of the Naval Reserve Association on legislation to extend the VA Loan Guaranty Program to certain members of the reserve components.

The Naval Reserve Association has not taken a position on adjustable rate mortgages, so I will not address H.R. 1384 in my statement.

H.R. 939, which extends the VA Loan Guaranty Program to reservists and guardsmen who have served at least six (6) years in the Selected Reserve, is particularly timely this year after the reservist recalls of Desert Shield/Desert Storm. I will not attempt to repeat in detail the collective accounts of superb performance and patriotism displayed by the 228,000 recalled reservists as presented by General Hultman and others. However, I would like to cite two individual recallees as illustrative of the calibre reservists we have today in the Naval Reserve and other reserve components. These two Naval Reservists were members of an A-6 squadron augmentation unit that is assigned to an active Navy A-6 squadron at NAS Oceana, Virginia. Commander Tom Stewart, the Commanding Officer of the unit, who operates a business in Virginia Beach, Va., voluntarily went to the Persian Gulf on training duty February 4th and remained on the carrier Theodore Roosevelt until March 8th flying combat missions in A-6 attack bombers with Attack Squadron 65. He has been recommended for the AIR MEDAL (first strike/flight award). One of his squadron personnel, Aviation Ordnanceman 1st Walter Thompson, was recalled in December, 1990, reported to the carrier Midway in January, and after only one week on board was placed in change of Flight Deck Ordnance with supervision over the handling of all bombs, missiles, etc. on the flight deck. He remains on the USS MIDWAY as of this date. Incidentally, none of the Naval Reserve squadron augmentation units were recalled as units, and for budgetary reasons have been deleted in the FY '92 Defense budget submission.

These reservists certainly validate the statements of Chairman Stagger before the 101st Congress that Reservists are good credit risks being for the most part mature, responsible, and solvent citizen soldiers/sailors.

An overwhelming majority of reservists responded willingly to recall (in the Navy Reserve an "Ivory pure" 99.7% reported) but their lives were seriously disrupted and many suffered real economic hardship. Undoubtedly, recalled reservists will be subject to considerable family, business/employer and peer pressures to reconsider or reevaluate their continued participation in the reserve components. The rights and benefits awarded to reservists by Congress in the past and recently in the FY '91 Defense Bill, the Soldiers and Sailors Relief Act Amendments and Desert Storm Supplemental Personnel Benefits Act will be a major factor in the recallees decision as to further reserve participation. While homecoming celebrations are important and much appreciated, programs such as this proposed extension of the VA House Loan Guaranty Program in HR -939 is tangible evidence of the appreciation of a grateful nation for the sacrifices of the citizen soldier/sailor.

With the drawdown of the active military forces, the reserve components must be relied upon to provide an adequate cost effective Total Force. Hence incentives to recruit and retain reservists may become even more important, particularly in light of the personal sacrifices required of our recently recalled reservists.

Extending the VA House Loan eligibility to Reservists with six years of service is a powerful recruiting and retention tool that will enhance our Total Force defense posture in a cost effective manner, and should in fact strengthen the VA Guaranty Loan Program as well.

Thank you for this opportunity to comment on this important proposed benefit for our reservists. I will be happy to respond to questions.

Testimony of Bob Muffley
Before the
U. S. House of Representatives
Committee on Veterans Affairs

Subcommittee on
Housing and Memorial Affairs
on the
Department of Veterans Affairs Loan Guaranty Program

May 2, 1991

I. INTRODUCTION

Mr. Chairman, Members of the Subcommittee, my name is Bob Muffley. I am a REALTOR from Gooding, Idaho and 1991 Vice-Chairman of the NATIONAL ASSOCIATION OF REALTORS®' Real Estate Finance Committee. In addition, I am a veteran and served in the army during the Vietnam conflict. Our Association sincerely appreciates the opportunity to testify on oversight of the Department of Veterans Affairs (DVA) Home Loan Guaranty Program. In addition, our testimony will discuss H.R. 939, legislation to expand the Loan Guaranty Program to certain members of the National Guard and Reserves and H.R. 1384, legislation to provide for a demonstration program with respect to adjustable rate mortgages. In addition, we would like to take this opportunity to comment on H.R. 232, "The Veterans Housing and Memorial Affairs Amendments of 1991".

At the outset, however, we want to thank the Chairman and members of the Subcommittee for your continuing commitment to our nation's veterans, including your recent efforts to reject the proposals in President Bush's FY 1992 Budget regarding the VA Home Loan Guaranty Program. It proposed making the current 1.875 funding fee permanent, imposing a 2.5 percent funding fee and a 10 percent downpayment on non-active duty military personnel who use their entitlement more than once and finally, the loss on resales in the VA's no-bid formula. The National Association of REALTORS® is adamantly opposed to all three of these proposals and appreciates your support in their rejection.

II. OVERSIGHT OF LOAN GUARANTY PROGRAM

In your letter of invitation, we were asked to comment on oversight of the Loan Guaranty Program, including origination, loan servicing and property management, staffing levels, timeliness and loan assets sales. The National Association of REALTORS® has a FHA/DVA Monitoring Network which monitors all aspects of government mortgage programs, including the VA Home Loan Guaranty Program. Our Monitoring Network meets three times a year and a DVA official is always present to address our meetings and answer questions from our members.

DVA Staffing and Property Management

At our most recent Mid-Year Meetings in Washington, D.C., DVA staff informed our members that the Department's properties through acquisitions are down 6 percent and the properties that the DVA has on hand are down 4 percent. This decline in property acquisitions is due to a combination of an improving economy in the oil patch states and improved efficiency on the part of the DVA. In addition, 99 percent of all foreclosed properties are currently sold through real estate brokers who facilitate the expeditious disposition of these properties. At our recent FHA/VA Monitoring Network meeting, there was not one complaint over any aspect of management of the Home Loan Guaranty Program.

The Association commends the DVA for their continued efforts with our Association to dispose of their properties.

Origination

"The Veterans Home Loan Restructuring Act of 1989" (P.L. 101-137) made some significant changes to the Home Loan Guaranty Program including the replacement of the previous one percent funding fee with a 1.25 percent indemnification fee. In addition, the Act increased the entitlement amount for veterans from $36,000 to $46,000. The Association supported this increase in the entitlement amount because we believe the new higher loan limits will help veterans acquire homes in high cost areas. For example, the higher entitlement amount has increased the effectiveness of VA financing in California and the northeast. This fact was revealed by the statistics which show that in 1990, for the first time in five years, the proportion of VA-guaranteed mortgages rose in that state. We are hopeful that continued use of the program in high cost areas will enable more veterans to take advantage of their VA entitlement and therefore, add to the programs financial reserves and stem their losses.

III. H.R. 939

The NATIONAL ASSOCIATION OF REALTORS® supports H.R. 939, introduced by the Chairman of this Subcommittee. Under current law, VA guaranteed home loans are presently limited to active duty veterans and individuals on active duty who have satisfied the requirements for eligibility contained in Title 38, Chapter 37, United States Code. H.R. 939 would extend eligibility for the VA Home Loan Guaranty Program to people who have completed six years of service in the nation's reserve forces. In addition, reservists would only be eligible for this program if they have received an honorable discharge. Under H.R, 939, reservists would be charged a two percent indemnity fee when no downpayment is made, a 1.5 percent fee if a downpayment of five percent or more is made and a 1.25 percent fee if a down payment of ten percent or more is made.

The NATIONAL ASSOCIATION OF REALTORS® supports the Chairman and Ranking Member of the Subcommittee in their attempts to recognize the service and dedication of reservists through the extension of loan guaranty benefits. Our Association hopes that making reservists eligible for the VA Home Loan Guaranty Program and charging reservists a slightly higher fee than veterans will help to improve the financial condition of the VA Loan Guaranty fund. Further, we will convey our support of this legislation to the members of the Senate Veterans Committee and urge the Senate to consider similar legislation this year.

IV. H.R. 1384

The Association supports H.R.1384, introduced by Congressman Payne, to provide for a demonstration program by the Secretary of Veterans Affairs with respect to adjustable rate mortgages (ARMs). As submitted in previous testimony, the Association has long supported this option. The Department of Veterans Affairs is the only remaining market participant without an ARM program. The Association believes an adjustable rate mortgage facilitates the different borrowing needs of veteran borrowers. We do not however, support the implementation of negative amortization type mortgages. We believe negative ARMS could have a negative impact on veterans, especially if the veteran is forced to relocate during the first few years of the mortgage.

Although we realize that there is no legislation pending on this issue, the NATIONAL ASSOCIATION OF REALTORS® supports the repeal of the authority of the Secretary of the DVA to establish the maximum rate of interest which veterans-borrowers must pay on their VA-guaranteed loans. Establishment of a maximum rate mandates the number of points a seller must pay, thus making some sellers unwilling to offer VA financing. The lack of a negotiated rate clearly does not benefit veterans. As background for the purposes of comparison, in 1983, the FHA-administered interest rate was deregulated to allow for a negotiated rate between the borrower, seller and lender. The Association strongly supported that modification, believing that it significantly improved the ability of borrowers to utilize that valuable program. Similarly, we support any future proposals that would substitute the market forces of supply and demand for the artificial restriction on interest rates of VA-guaranteed loans.

V. H.R. 232

We realize that H.R. 232, "The Veterans Housing and Memorial Affairs Amendments of 1991" has already been approved by this Subcommittee and the full House of Representatives, but we would like to state our support for the provision in that legislation which extends the authorization for the Lender Appraisal Processing Program (LAPP). As members of this Subcommittee are aware, Congress authorized the creation of a DVA LAPP program in 1987. The LAPP program is similar to the FHA direct endorsement program for appraisals. The DVA issued final regulations for the program in October, 1990. However, the legislation authorizing the program expired at the end of September 1990. In other words, the LAPP program had just become operational when its statutory authorization expired.

The NATIONAL ASSOCIATION OF REALTORS® supports the provision in H.R. 232 which extends the program until of December 31,1991; however, we would go one step further and advocate that the program be extended three additional years. We believe that an extension only until the end of this year is not sufficient time to successfully evaluate this program. As of this writing, the Senate has still not acted on H.R. 232 or similar legislation, and the Association is concerned that valuable time is being lost until the program again becomes law. We respectfully urge that when this bill comes to conference, members of this Subcommittee consider a three year extension of this program.

VI. CONCLUSION

As previously stated, the Association is grateful for the opportunity to provide testimony on issues of concern to our members relating to the Home Loan Guaranty Program. We applaud the efforts of this Subcommittee and look forward to participating in an ongoing partnerships to provide homeownership benefits opportunities to our nation's veterans.

April 30, 1991

STATEMENT OF
LEFF MOORE
EXECUTIVE DIRECTOR
WEST VIRGINIA MANUFACTURED HOUSING ASSOCIATION

ON BEHALF OF
THE MANUFACTURED HOUSING INSTITUTE
AND
THE NATIONAL MANUFACTURED HOUSING FEDERATION

BEFORE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
THE HONORABLE HARLEY O. STAGGERS, Jr., CHAIRMAN

HEARING ON CONGRESSIONAL OVERSIGHT OF
THE DEPARTMENT OF VETERANS' AFFAIRS
LOAN GUARANTY PROGRAM

MAY 2, 1991

MANUFACTURED HOUSING INSTITUTE
JERRY C. CONNORS, PRESIDENT
1745 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202

(703) 979-6620

Introduction

The Manufactured Housing Institute (MHI) appreciates this opportunity to offer its views on the Department of Veterans Affairs (DVA or Department) Loan Guaranty Program. As representatives of the the manufactured housing industry, we have a particular interest in the DVA's manufactured home loan guaranty program and the role it may serve in helping to provide shelter to American veterans. We feel that the program represents an opportunity to provide affordable housing without heavy government subsidies, but the program is underutilized by veterans because of administrative procedures that need to be addressed by the DVA. It is our intent to offer suggestions in our testimony that we feel could help make this program much more accesible to veterans without additional costs to American taxpayers.

Our comments are offered on behalf of the members of the Manufactured Housing Institute and the National Manufactured Housing Federation.

The Manufactured Housing Institute

The Manufactured Housing Institute (MHI) is a national trade association representing manufactured home builders and related suppliers of goods and services to the industry and its consumers. MHI manufacturer members produce about two-thirds of the manufactured homes built in the United States.

The National Manufactured Housing Federation

The National Manufactured Housing Federation (Federation) is a national trade association comprising 47 state and regional manufactured housing asociations. These state and regional associations contain within their memberships over 8,000 retailers and 20,000 developers active in manufactured home sales, service and land development. Ninety percent of all new manufactured homes sold in the United States in 1990 were sold by Federation-affiliated retailers. Federation-affiliated developers own and operate over 1.5 million manufactured home sites across the United States.

The Manufactured Housing Industry

Manufactured homes are delivered from the factory in one or more sections. They are completely assembled and require only minimal labor to make them ready for occupancy once delivered to a home site. Manufactured homes are built to federal standards prescribed by Congress in the National Manufactured Housing Construction and Safety Standards Act of 1974 (P.L. 93-383). These standards were developed and implemented by the Department of Housing and Urban Development (HUD) in June 1976.

The Department of Veterans Affairs Manufactured Home Loan Guaranty Program

The Department of Veterans Affairs (DVA) was first authorized to guarantee loans on manufactured homes by the Veterans' Housing Act of 1970 (P.L. 91-506). The program has provided more than 112,000 veterans the opportunity to own their own home from its inception.

Manufactured home loans guaranteed by the DVA are eligible for pooling into Government National Mortgage Association (GNMA) mortgage-backed securities. So, the DVA program also provides an important access to loan funds available through institutional investors and others who buy GNMA securities. Access to investors through secondary markets has become an increasingly important source of funds for housing finance in the 1980's. And, at this time, GNMA is the only organized secondary market source for publicly traded securities backed by manufactured home personal property loans.

The Program is Under Utilized

By comparison to the DVA loan guaranty program for site-built homes, the manufactured housing program has never been a large volume program. However, volume over the last few years has slowed to a virtual trickle. We believe that this loss of volume has been caused by administrative log jams and bureaucratic apathy -- not by a lack of interest on the part of veterans in using the program. A look at volume over the last few years illustrates the point.

Year	Number of Loans	Dollar Volume of Loans
1985	8,135	$ 174.7 mil.
1986	5,851	129.6 mil.
1987	4,259	98.6 mil.
1988	1,674	38.9 mil.
1989	643	15.2 mil.
1990	391	9.1 mil.

As the Subcommittee knows, the Department suggested last year that the DVA program created for personal property manufactured home loans be eliminated. Fortunately, that proposal found no support in this Subcommittee or in Congress generally. However, because the DVA apparently feels that this program is of little or no value to the veteran and is too small for them to commit resources to administer, they have effectively eliminated the program by throwing up road blocks for lenders in its administration and failing to examine or implement changes in the program to make it work effectively for the benefit of more veterans.

Many of the changes we are suggesting in this testimony have been suggested before by us or other representatives of the manufactured housing industry. And, we do not mean to imply that DVA staff has been unapproachable. They have met with us and agreed with some of our suggestions. Our frustration, however, is that no changes have been made, or even proposed, as far as we know. Instead, the manufactured home loan guaranty program has gradually deteriorated to the point that it is almost nonexistant. That is a shame and a disservice to the veterans who could use the program.

What we propose is not a wide open program that would involve additional government spending or subsidies. In fact, what we propose is not a fundamental change from the DVA's existing program guidelines. The changes we propose are based on lenders' and retailers' views of why the program has become unattractive and difficult to use.

Program Administration Should be Centralized

Probably the most significant change that the DVA could make in reviving this program is to centralize its administration. Not only would this make using the program easier for the manufactured housing industry, it would probably save the Department some administrative costs.

There are forty plus field offices that process DVA-guaranteed loans and many have their own interpretation of what the manufactured home loan program guidelines mean. Hence, lenders who operate nationally or in large geographic areas find themselves having to offer a number of different DVA loan programs, depending on the interpretations of the field office with which they are dealing. One centralized processing station would guarantee consistent interpretation of program guidelines.

Centralized processing would allow the DVA to have specially trained personnel who would be experts in manufactured home financing. Volume in the program is low, even in the aggregate, and it is extremely low in all but a few field offices. Therefore, most field office personnel do not process many manufactured home loans and therefore do not necessarily fully understand them, and the cost to the DVA to keep a specially trained person at all field offices to process a few loans is not cost beneficial. So, centralized processing would allow the DVA to have fewer staff who are trained in processing manufactured home loans, but those staff would be better trained.

In addition to providing more efficient staff at less cost for manufactured home loan processing, centralized processing will assure consistent interpretation and application of program guidelines. This would go a long way toward making the program more attractive for lenders and therefore more available to veterans.

Illustrative of the point we want to make here is a problem that exists today with appraisals on manufactured homes where the veteran borrower has defaulted and the lender has had to repossess the home. Program guidelines require that the repossessed home be appraised prior to its sale and that the lender's loss be computed using the higher of the appraised value or the sales price. If the appraisal is higher than the price for which the home can be sold, then the lender's loss is increased. Lenders tell us that, increasingly, appraisals are higher than any realistic resale price the lender may expect to get for the home. The lender must therefore suffer long delays in appealing the appraisal (many time unsuccessfully) or suffer the increased loss on the defaulted loan. Knowing this to be the case, lenders have begun to avoid the program in order to avoid these additional losses. With centralized processing, arbitration of these kinds of problems would be expedited.

More Cooperation Is Needed Between DVA and DOD

When an active duty veteran is transferred, he or she generally receives little advance notice. This increases the incidence of loan defaults for manufactured homes because many of these veterans have inadequate time to resell their home, cannot afford to pay living expenses at their new duty station and maintain the house payments, and therefore default on the loan. We do not believe it would be fair for active duty veterans to be barred, per se, from using the program. However, we do believe that some cooperation from the Department of Defense with the DVA could help this situation.

First, Base Housing Officers should notify the transferring veteran borrower that he or she must clear their debt obligation on the home prior to transferring, either by selling the home or be making arrangements to continue to make the payments. The lender holding the veteran borrwer's note should be notified that their debtor is transferring so that they can get in touch with him or her and counsel them on alternatives to handle the situation. In areas where off base affordable housing for enlisted personnel is scarce, which is probably at most installations, Base Housing Officers could be of great benefit to veteran borrowers and lenders by helping to put together personnel transferring in with housing needs with personnel transferring out with homes to sell. Perhaps this is already done to some extent, but more emphasis needs to be placed on personnel in lower priced housing where civilian demand may be lacking.

H.R. 939 Expanding Program to Reserves and National Guard

We applaud the Subcommittee Chairman and his colleagues for introducing H.R. 939, legislation to expand the DVA's home loan guaranty programs to members of the Reserve and National Guard. The recent war in the middle east reminded all of us the vital role our reservists play in protecting America's freedom. These men and women richly deserve the benefits that this program may bestow upon them.

Conclusion

We believe the Department's home loan guaranty program for manufactured housing can be an effective way to provide affordable housing to American veterans. However, fragmented field office administration and lack of cooperation or understanding of the program has frustrated lenders and discouraged them from offering the program. We believe centralized processing done by specially trained personnel who understand manufactured home financing would go a long way to reviving this program. To do less would be a shame and a disservice to the American veteran.

We wish to again express our appreciation to the Chairman and members of the Subcommittee for this opportunity to express our views.

Statement of

The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

from

JAMES HUBBARD, DIRECTOR
NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION

to the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

Two Legislative Proposals Regarding VA's Home Loan Program

May 2, 1991

Thank you, Mr. Chairman, for the opportunity to offer the views of our 3.1 million members on HR 939, which would extend entitlement for participation in the Home Loan Guaranty Program to certain members of the National Guard and Armed Forces Reserves. We are aware of the provisions of PL 102-25, which extends eligibility for participation in this program to members of the National Guard and Reserves who serve more than 90 days of active duty. We applaud this current effort to offer the benefit to others who may not have had the opportunity to accept a call to active duty.

From all we have seen, the members of the reserve components who were called to active duty for Operation Desert Shield/Desert Storm have performed extremely well. We must remember that they came from communities across this great country. They were productive members of society when they were called, and they will return to their jobs as productive members of society when they return. In our view, there is no reason to expect that those who weren't called are any different from those called. If this is the case, there is no reason to exclude them from participation in the Home Loan Guaranty Program.

In fact, there are some very good reasons to include them in the program. These people have a history of stability. They are part time citizen soldiers in the truest sense of the word. They are raising families and participating in community life, and they have stable incomes. A good many of them already own homes. In short, they are good credit risks and can be relied upon to maintain a good credit rating. We believe the Home Loan Guaranty Program would benefit from their participation. In our view loans made to these people would demand less attention than those made to active duty people. For these reasons, The American Legion supports legislation to include members of the National Guard and Armed Forces Reserve in this important benefit program.

With respect to HR 1384 which provides for a demonstration project to offer Adjustable Rate Mortgages to eligibles, we have mixed feelings. We testified two years ago that we were not in favor of implementing such a program due to associated problems. While most of those problems have been solved, we still have some reservations about ARMs. An ARM is not a particularly easy product to sell in times when interest rates are falling as they have been recently. Indeed, many firms holding ARMs are finding that their clients are refinancing to a conventional mortgage in order to save substantial interest costs over the term of the loan. We therefore question whether a meaningful demonstration project could be conducted in the current economic environment due to a lack of customers.

Although we continue to have some serious concerns about their use, The American Legion will not oppose legislation to authorize a demonstration project involving Adjustable Rate Mortgages being offered to VA borrowers.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

QUESTIONS SUBMITTED BY HONORABLE G. V. (SONNY) MONTGOMERY
TO THE DEPARTMENT OF VETERANS AFFAIRS
SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
MAY 2, 1991

QUESTION 1: If the Congress were to enact an adjustable rate mortgage program, how would you envision it working and at how many regional offices?

ANSWER: We would take a conservative approach in developing a new ARM program, similar to the approach taken by FHA in their ARM program. We would prescribe a maximum interest rate to be charged for the first year of the loan. The maximum initial rate set by VA would be changed periodically as necessary to reflect changes in the mortgage money market. VA would also prescribe a range over which the interest rate could vary, through annual adjustments in the interest rate. There would be a maximum annual increase in the interest rate. "Teaser rates," i.e., an artificially low first year rate would be prohibited. All rate adjustments made at the end of the first year would be made starting from the actual first year rate, rather than some higher rate. There would also be a life of the loan limit on rate increases. A cross-section of field stations would be chosen to participate in the ARM pilot program. There would be geographic diversity and both high and low volume stations would be represented.

QUESTION 2: You state you offer vendee financing at below-market interest rates in certain areas where low-rate loans are being offered by competing REO sellers. Where is this happening and what percentage of interest are you offering?

ANSWER: Vendee financing is offered at 7.5 percent interest in Oklahoma and 8 percent interest in Georgia. The Veterans' Benefits and Program Improvement Act of 1988 (Public Law 100-689) authorizes VA to use below market interest rates on vendee loans in those areas where reductions are necessary to competitively market VA-acquired properties and when it is determined that it is in the best interest of the long-term stability and solvency of the Loan Guaranty Program.

QUESTION 3: The Manufactured Housing Institute recommends that you centralize administration of the manufactured home loan program in order to guarantee consistent interpretation of program guidelines. Have you considered doing this?

ANSWER: We have given considerable thought and study to the possibility of centralizing the manufactured home loan program. At this time, however, we have not made a decision to do so.

QUESTION 4: Is there a way to better protect veteran buyers of new home construction from defects in construction?

ANSWER: All manufactured products, including houses, have the potential for defects. For that reason, VA takes steps before, during, and after the construction of houses appraised by VA as proposed construction to ensure that the interests of both the veteran and VA are protected.

Several VA pamphlets are available which provide guidance to veteran home buyers planning to buy or build a home. Prospective home buying veterans receive a copy of these pamphlets with their VA Certificate of Eligibility.

The construction exhibits for each house appraised by VA as proposed construction must be reviewed by an architect, engineer, or other technically qualified person, and certified as substantially conforming with VA Minimum Property Requirements for proposed construction, as well as meeting all local building code requirements. VA ensures that the plans are properly certified, and that all required exhibits are included in the plans.

Compliance inspections by a VA-appointed fee inspector are performed at critical stages during the construction of each of these houses. Those inspections provide a degree of confidence that the work performed substantially conforms to the plans and specifications. Those inspections cannot ensure, however, that future problems will not develop because of hidden defects in material or workmanship.

Additional inspections performed by local building authorities determine compliance with local building codes and ordinances. Generally, VA relies on the building authorities to enforce the code compliance of the mechanical, electrical, and plumbing systems. Good inspection procedures by local building authorities should help ensure home buyers of fewer construction-related defects.

Finally, after the veteran moves into his new home, VA stands ready to assist him or her, if necessary, in getting the builder's cooperation in resolving construction complaints which VA determines to be the builder's responsibility. In addition, depending on the circumstances of a particular case, veterans may be eligible for VA financial assistance in the correction of structural defects.

Overall, we believe that the above policies and procedures provide an adequate level of protection to veterans purchasing new homes inspected by VA or FHA. We strongly believe that this level of "protection" is vastly superior to that which non-veterans experience with their new home purchases.

QUESTION 5: Are you still using outside sources to conduct loan sales? If so, what are your costs?

ANSWER: Yes. VA still uses private firms to provide the following services in connection with vendee loan sales: underwriting (selling) the issued securities which are backed by the loans sold, providing legal services in connection with the sale offerings, auditing the security structure and on-going administration of the pooled loans, printing issuance documents, advancing SEC and rating agency fees. Costs associated with such services have steadily declined since the inception of VA's securitized sale program in FY 88. FY 91 costs will average approximately 0.5% of the principal balance of loans sold. This compares with a weighted average cost of 0.91% for FY 90 loan sales.

QUESTION 6: The Non Commissioned Officers Association states that Federal contributions for the Mortgage Indemnity Program are being made in budget authority and not cash; and, as such are not invested. Is this true?

ANSWER: Yes, according to the Treasury Department only the funding fees can be invested in Treasury securities.

QUESTION 7: How much of your origination activity is due to refinancing?

ANSWER: Through April 30, 1991 (FYTD), 6.9 percent of all VA loans closed (including manufactured home loans) were refinancing loans: 7,323 of 105,661 loans closed.

QUESTION 8: Please explain for the record how your computer based bulletin board operates. Do you ever list properties through the use of multiple listing services?

ANSWER: VA does not operate a centralized bulletin board or market VA-acquired properties through a national sales listing. VA manages and sells its acquired properties through 46 regional offices with Loan Guaranty activities. Each office issues sales listings for VA-acquired properties in its area of jurisdiction, and most of the offices operate local bulletin boards to provide sales listing and purchase offer status information to operators of modem-equipped personal computers. Our offices with bulletin boards issue local instructions concerning procedures for user registration and data transfer. Our offices do not charge user fees. Some of our offices may limit access to the bulletin boards so that telephone lines will be open to local real estate brokers who negotiate sales on VA's behalf. Most of the boards operate during evening and weekend hours when property sales are being developed by brokers. Some of the boards are available 24 hours-a-day, except for brief periods when data is updated.

During the last several years, it has been suggested on many occasions that VA could improve its marketing results by simply listing our properties through local MLS (Multiple Listing Service). We have made several attempts to do so. Our first attempt, which had the full support of the NAR (National Association of Realtors)/VA/HUD Task Force, was to have our properties listed by local Boards of Realtors in a separate section of their MLS. Even though this plan received enthusiastic support from the Task Force and was authorized by NAR Headquarters, it did not generate much interest at local Boards of Realtors.

At this time, we are testing the use of MLS directly through a revised management broker compensation plan which grants the management broker an exclusive right to sell and requires that all of our properties under his/her management be placed in the local MLS. This plan is currently being used in several areas of California, Texas, Colorado and Utah.

QUESTION 9: Do you service your vendee loan portfolio or do you contract this out? What is the default status of your vendee loan portfolio vs. GI home loans which are financed through lenders?

ANSWER: Yes, we service our vendee loan portfolio in-house. Approximately 3.3 percent of all outstanding GI loans are in default as of April 30, 1991, as compared with 7.5 percent of all vendee loans in VA's portfolio. The vendee figure is for loans over three months delinquent. This figure provides the best comparison with the GI loan figures, since GI loan defaults are reported to VA when the accounts are three or four months delinquent.

QUESTION 10: You indicate that there has been a worsening of market conditions in some states which were not previously affected by adverse economic conditions. For the record, could you furnish specific information to the subcommittee?

ANSWER: Although the number of VA-acquired properties on hand nationwide has been reduced by 6 percent, from 17,606 to 16,539, during the past 12 months, and the inventory in certain "rust belt and oil patch" areas has also decreased, the numbers of properties carried in other areas has increased during the same period. The following table indicates areas of increase between April 1990 and April 1991.

VA Office	Inventory Difference	
Location	Number	Percent
Roanoke, Virginia	+ 329	+61
Atlanta, Georgia	+ 223	+49
Wichita, Kansas	+ 152	+62

QUESTION 11: What is the status of your regulations on pre-foreclosure waivers?

ANSWER: The regulations were published in final form in the federal register on August 2, 1990. A change to our policy manual implementing the provisions of these regulations has been drafted and is in the concurrence process.

QUESTION 12: What is your current manufactured home loan activity?

ANSWER: Through April 30, 1991 (FYTD), 220 manufactured home loans have been closed.

QUESTION 13: Have you received more complaints regarding defects on new homes from builders which are HOW insured and which does not require the VA to make the first two inspections vs. homes which you do inspect?

ANSWER: We currently do not capture complaint activity on new homes covered by insured warranty plans, separate from other complaint activity. Therefore, we can not answer this question. The volume of construction complaints, however, is very low when compared to the volume of VA proposed construction loans guaranteed. It is our impression that insured warranty cases do not constitute a disproportionate share of the construction complaints received by VA.

QUESTION 14: Do you keep records as to whether a foreclosure may have been generated as a result of structural defects?

ANSWER: VA does not maintain specific records which would identify cases in which a structural defect is the primary cause of a foreclosure. In our reasons for liquidation report, COIN LCS 62-01 and 62-02, (copies are included in VA's annual report to Congress), the category of "unsatisfactory property or equipment" would most closely relate to structural defects. For FY 1990, 2.5 percent of liquidations were reported in this category. This category includes any defect or problem with the property, not only those that could be considered structural. It is important to note that this liquidation report combines information on properties that were existing as well as newly constructed at the time VA issued the guaranty. Categorization of a foreclosure as being due to "unsatisfactory property or equipment" represents the opinion of a Loan Service Representative and does not imply that the property condition has been reviewed by an appraiser or construction analyst.

QUESTIONS SUBMITTED BY HONORABLE DAN BURTON
TO THE DEPARTMENT OF VETERANS AFFAIRS
AT THE SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
MAY 2, 1991

QUESTION: Please compare the net return to the government of the securitized loan sales with the former with-recourse sales, and compare the transaction costs, fees and expenses associated with each type of sale.

ANSWER: The proceeds and costs of the two sale alternatives are calculated differently. On securitized loan sales, VA directly participates in the pooling of the loans sold and sale costs are deducted from the gross sale proceeds to arrive at the net up-front return. Under the former recourse sale program, VA sold loans to private companies through competitive bid auctions and the winning bidder was responsible for any and all costs associated with the subsequent issuance of securities backed by the loans. Those estimated securitization costs on the former recourse sales were therefore reflected in the buyer's bid price rather than an out-of-pocket expense to VA.

Guaranty obligations associated with each of the two sale alternatives are also different. On the former auction sales with recourse, VA was obligated to buy back defaulted loans. The Government therefore incurred funding costs for such outlays in addition to the losses suffered on the repurchased loans which were subsequently foreclosed. On the securitized sales, VA does not buy back defaulted loans. Servicing of those loans remains with the private company selected for that purpose and it processes all foreclosures and property resales which are required. Pursuant to the guaranty agreement, VA only advances monies to cover the losses actually incurred following resale of acquired properties and the scheduled principal and interest installments on loans which are in default. The present value of the costs associated with such obligations is therefore somewhat lower.

After considering these factors, the net up-front return from the securitized sales with recourse has exceeded the estimated return on the former auction sales by an average of 0.17%. When the estimated present value of future guaranty costs associated with the sales is included, the difference in total realized value is even greater, an approximate average of 0.68%. A table comparing the estimated proceeds and costs of recourse sale alternatives for VA's last three loan sales is provided below (in the table, "AHT" stands for "American Housing Trust" and "4600" stands for VA's former recourse sales procedure--the percentage figures given represent percentages of the principal balance of the loans sold):

Date ----]	8/30/90		1/29/91		5/23/91	
	AHT	4600	AHT	4600	AHT	4600
Gross Proceeds	95.22%	----	102.53%	----	99.92%	----
Sale Costs	0.98%	----	0.48%	----	0.66%	----
Net Cash Proceeds	94.25%	93.44%	102.05%	102.51%	99.26%	98.94%
PV of Future Costs	3.17%	3.32%	3.68%	4.36%	3.53%	4.18%
Total Realized Value	91.08%	90.12%	98.37%	98.15%	95.73%	94.76%